Credit and Debt in the Age
Of Influence:
Can U.S. Bankruptcy Reform Avoid
The Recessionary Abyss?

IHELG Monograph
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- Houston Roundtable on Higher Education Law
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- Study opportunities
- Conferences
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CREDIT and DEBT IN THE AGE OF AFFLUENCE:
Can U.S. Bankruptcy Reform Avoid the Recessionary Abyss

The deregulation of the U.S. financial services industry over the last two decades has contributed to profound shifts in the use, cost, and access to various forms of credit. For U.S. financial institutions, this new legal environment has accelerated the concentration of the industry as well as fundamentally transformed its organizational and institutional structure. That is, it has shaped the emergence of a bifurcated consumer financial services system (traditional, ‘first’ tier banks and “fringe” or second-tier banks such as pawnshops, rent-to-own shops) as well as fostered the rise of “conglomerate” financial services corporations such as Citigroup (1998 Citibank-Travelers’ merger). In the process, the U.S. banking industry recorded eight successive years of record annual earnings (1992-1999) and registered very strong earnings in the first two quarters of 2001.

One of the key factors in the dramatic turnaround in U.S. banking profitability in the 1990s has been its tremendous increase in the marketing of new “retail” or consumer financial services. In particular, the profound shift in the sale of higher cost, noninstallment loans such as revolving credit card and home equity loans. Through the economies of scale of the megabanks and the realization that small consumer loans at sharply higher prices could yield much greater returns than mortgages or business loans, the industry aggressively responded to structural economic change (U.S. industrial restructuring) and the contracting welfare state (declining social services) by explicitly marketing loans to consumers that could NOT repay them. In order to reduce its institutional risk, these high interest and riskier consumer loans have been increasingly resold on the secondary market as “securitized” loans following the success of earlier “repackaging” of home mortgages and automobile loans. Hence, in order to maintain its growth and earnings rates, the financial services industry has been forced to expand into increasingly riskier and marginal markets including college students, senior citizens, working poor, and highly indebted middle-class. It is the latter trend that poses the most serious challenge to a consumer bankruptcy

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reform that is primarily responsive to the interests of the credit card industry.

The Explosion of U.S. Consumer Credit:
Long-Term Performance Enhancer or Short-Term Miracle Drug-

Like an athlete who uses steroids to temporarily exaggerate muscle mass and to boost physical strength, the U.S. economy has been perilously inflated through the enormous increase of debt over the last two decades. Across all sectors of U.S. society (household, government, corporate), access to easy credit has led to a pervasive dependence on debt, much like American's addiction to low cost energy supplies. And, like the myriad of medical maladies that eventually afflict steroid abusers, the negative long-term consequences of societal debt have been neglected during the past decade of unprecedented U.S. economic growth.

Most Americans would be surprised to learn that total consumer debt, including home mortgages (over $6.5 trillion), exceeds the cumulative U.S. national debt ($5.7) trillion. And, like the sharp increase in federal borrowing that augmented the modest growth of federal revenues over the last 20 years (U.S. national debt totaled ($940 billion in 1981), consumers have become increasingly dependent on unsecured or revolving credit (about $55 billion in 1981) to compensate for stagnant real wages, increasing employment disruptions, and higher costs for big ticket items such as automobiles, college tuition, insurance, housing, and health/medical costs. Although the finance charges on the national debt have grown substantially (from $292.5 billion in 1993 to $362.0 billion in 2000), accounting for over 12 percent of the current federal budget, heavily indebted consumers are facing a more serious financial burden since their loans are more likely to be in the form of higher interest credit cards (average of over 16.% APR) versus more modest Treasury bonds (4%-5%).

At the same time that one-stop financial shopping has provided greater convenience and lower prices for a small minority of U.S. households, the most economically disadvantaged or financially indebted are increasingly relegated to the second-Tier of the financial services industry (pawnshops, rent-to-own stores, payday-lenders) where interest rates typically range from 10 to 40 percent and more PER MONTH! Significantly, this fastest growing segment of the financial services industry features the participation of some of the largest First-tier banks
such as Wells Fargo, Goleta National Bank, and Bank of America. To the
dismay of most Americans, the deregulation of the financial services industry has
led to record revenue growth and profits for banks while providing more complex
pricing systems, less personalized service, and sharply increased costs to the
majority of consumers. In sum, while U.S. wages in general and household
income in particular have typically declined over the last two decades, the
effective demand of American consumers has been enhanced by their access to
increasingly higher cost credit.

This trend is especially significant since the U.S. post-industrial economy
has been fueled by the growth of consumer related goods and services
accounting for about 2/3 of America’s economic activity (Gross Domestic
Product). As long as U.S. consumer demand has increased, stagnant real
wages (from mid-1970s to late 1990s), declining labor benefits (health, pension),
and the growth of temporary or "contingent" workers (from 417,000 in 1982 to
1.22 million in 1989 and to 2.65 million in 1997) have been obscured by the
unprecedented extension of consumer (especially revolving) credit.

Like steroid abuse, the dramatic decline in the U.S. personal savings rate
(from nearly 8.5% in the early 1980s to less than zero today) and the sharp rise
in consumer debt could have long lasting effects on the U.S. economy. Since the
end of the last recession (1989-91), the Federal Reserve reports that total
installment consumer debt (credit cards plus consumer loans such as autos and
appliances) rose from $731 billion in 1992 to about $1.5 trillion today. This
includes a huge increase in unsecured credit card debt: from $292 billion in 1992
to $654 billion at the end of 2000. A remarkable trend since credit card debt was
only $50 billion in 1980. Together with the sharp increase in stock market
valuations during the 1990s ("wealth effect") and the corporate promotion of
immediate gratification ("Just Do It" consumption) which inflated consumer
expectations, Americans have tended to purchase more than they could possibly

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3 The key statutory provision that has led to the sharp growth in joint ventures between second-tier
“check-cashers” and first-tier banks is Federal preemption in the regulation of federally chartered
banks. See Jean Ann Fox, “States Grant Payday Lenders a Safe harbor from Usury Laws,”

4 See Robert D. Manning, CREDIT CARD NATION, (New York: Basic Books, 2000), Chapters 1 and
2.

5 Lawrence Mishel, Jared Bernstein, and John Schmitt, The State of Working America, (Ithaca: Cornell
afford on their household income. As a result, the last 15 years have witnessed the mass marketing of an idealized 'American Dream' that is based on the fragile edifice of an enormous increase of consumer debt. Power Point presentation of credit card advertisements HERE.

The steep rise in the share of household income allocated to housing has meant that there has been less discretionary income available for other personal or family needs. Although mortgage debt is the least expensive consumer loan, the unprecedented increase has squeezed the ability of households to pay for other purchases and/or finance an unexpected expenditure. As shown in Table 1, the mortgage share of disposable income has jumped from 18.5% in 1949 to 40.3% in 1967. Over the last 20 years, it has jumped from 44.7% in 1979 to 55.3% in 1989 and 67.5% in 1999. When combined with the rise in other consumer debt (home equity loans, credit cards), the last 20 years—especially the last 10 years—has registered an incredible increase in average household debt. Between 1979 and 1989, total U.S. household debt as a percentage of disposable personal income jumped from 71.9% to 84.6%. Ten years later, 1999, total household debt had crossed a previously unimaginable threshold: it exceeded average discretionary income (103.0%). Furthermore, it is important to note that many important sources of consumer debt are not included in this measure such as car leases, payday loans, pawns, and rent-to-own contracts. Even so, nonmortgage consumer debt would not be so difficult to service if not for the dramatic rise in housing costs.

The key to understanding future trend in bankruptcy filings is the socio-economic groups that are having the most difficulty servicing their consumer debts. For instance, Table 2 reports stocks, other assets, total debt, and net worth by wealth class from 1962 to 1998. These statistics measure overall economic well-being as well as the potential financial vulnerability of some households to the fragile "wealth bubble" of appreciating housing and investment assets. Over the last 15 years, which includes the longest economic expansion in U.S. history, the bottom 40% of the U.S. wealth distribution registered a modest $8,300 increase in average total assets versus $19,900 in total debt—an overall decline of $3,600 in net worth. The experience of the middle 20% (40% above and 40% below) is instructive. During this period, stocks of this group rose $7,600 and other assets rose $17,600 versus an increase of $19,700 in total
**TABLE 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>All debt</th>
<th>Mortgage</th>
<th>Home equity loans*</th>
<th>Consumer credit</th>
<th>All debt</th>
<th>Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>31.9%</td>
<td>18.5%</td>
<td>n.a.</td>
<td>10.2%</td>
<td>5.9%</td>
<td>14.2%</td>
</tr>
<tr>
<td>1967</td>
<td>66.9</td>
<td>40.3</td>
<td>n.a.</td>
<td>18.8</td>
<td>11.7</td>
<td>29.2</td>
</tr>
<tr>
<td>1973</td>
<td>65.2</td>
<td>37.9</td>
<td>n.a.</td>
<td>19.7</td>
<td>12.3</td>
<td>25.2</td>
</tr>
<tr>
<td>1979</td>
<td>71.9</td>
<td>44.7</td>
<td>n.a.</td>
<td>19.5</td>
<td>13.5</td>
<td>26.7</td>
</tr>
<tr>
<td>1989</td>
<td>84.6</td>
<td>55.3</td>
<td>7.0%</td>
<td>19.8</td>
<td>14.4</td>
<td>30.4</td>
</tr>
<tr>
<td>1995</td>
<td>91.9</td>
<td>60.0</td>
<td>5.8</td>
<td>20.7</td>
<td>15.3</td>
<td>38.6</td>
</tr>
<tr>
<td>1999</td>
<td>103.0</td>
<td>67.5</td>
<td>7.7</td>
<td>21.5</td>
<td>14.1</td>
<td>40.1</td>
</tr>
</tbody>
</table>

* Annual percentage-point change

<table>
<thead>
<tr>
<th>Period</th>
<th>All debt</th>
<th>Mortgage</th>
<th>Home equity loans*</th>
<th>Consumer credit</th>
<th>All debt</th>
<th>Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-67</td>
<td>1.9</td>
<td>1.2</td>
<td>n.a.</td>
<td>0.5</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>1967-73</td>
<td>-0.3</td>
<td>-0.4</td>
<td>n.a.</td>
<td>0.1</td>
<td>0.1</td>
<td>-0.7</td>
</tr>
<tr>
<td>1973-79</td>
<td>1.1</td>
<td>1.1</td>
<td>n.a.</td>
<td>0.0</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>1979-89</td>
<td>1.3</td>
<td>1.1</td>
<td>n.a.</td>
<td>0.0</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>1989-99</td>
<td>1.8</td>
<td>1.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>1995-99</td>
<td>2.8</td>
<td>1.9</td>
<td>0.2</td>
<td>0.2</td>
<td>-0.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>

* Data for 1989 refer to 1990.
** All debt as a share of all assets; mortgage debt as a share of real estate assets.
debt. The economic winners are those in the top 10% and especially the top 1%.  

Two other measures of financial distress as measured by the U.S. Federal Reserve Board are households with high debt burdens (40% or more of household income) and late payment (60 days or more) of bills. Between 1989 and 1998, the lower income, middle-class reported the most economic difficulty. For instance, the high debt burdens of modest income households ($10,000 to $24,999) rose from 15.0% to 19.9% while moderate income households ($25,000 to 49,999) rose from 9.1% to 13.8%; households with incomes over $50,000 increased marginally to about 5% while those under $10,000 rose from 28.6% to 32.0%. Similarly, late payments increased marginally among households with at least $50,000 annual income to about 4.4% (most increase since 1992) while the $25,000 to $49,999 group nearly doubled from 4.8% in 1989 to 9.2% in 1998; households with modest income ($10,000 to $24,999) remained unchanged at 12.3%.  

Together, these data show that during the recent period of robust economic conditions, the lower and middle income households utilized increasing levels of consumer credit while evidencing with mounting strains on their ability to service their escalating debt levels. This is consistent with the findings of Teresa Sullivan, Elizabeth Warren, and Jay L. Westbrook in their pathbreaking study, The Fragile Middle Class, Americans in Debt (2000).

A related indicator concerns the ability of consumers to pay for their credit card charges. Table 3 presents self-reports on credit card payments by age groups for the years 1995 and 1998 as compiled by the U.S. Federal Reserve Board from the Survey of Consumer Finance. The data is suggestive in terms of measuring economic stress since the proportion of credit card “deadbeats” or “convenience users” (zero balance) rose sharply—from 34% in 1995 to 42% in 1998. For example, all of the age groups—with the exception of those UNDER 35 years old—reported a greater proportion that “Almost Always Pay off Balance.” Similarly, only the 35-44 and under 35 years old groups reported an increase in “Hardly Ever Pay off Balance” whereas the groups over 54 reported the largest increase in paying off their credit card debts. This reflects both different


### TABLE 2

Household assets and liabilities by wealth class

(Thousands of 1998 dollars)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Top 1.0%</th>
<th>Next 9%</th>
<th>Next 10%</th>
<th>Next 20%</th>
<th>Middle 20%</th>
<th>Bottom 40%</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stocks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1962</td>
<td>$2,409</td>
<td>$123.2</td>
<td>$13.7</td>
<td>$4.4</td>
<td>$1.1</td>
<td>$0.3</td>
<td>$38.3</td>
</tr>
<tr>
<td>1983</td>
<td>1,564.2</td>
<td>100.9</td>
<td>12.1</td>
<td>4.6</td>
<td>1.6</td>
<td>0.4</td>
<td>27.7</td>
</tr>
<tr>
<td>1989</td>
<td>1,180.7</td>
<td>129.7</td>
<td>25.4</td>
<td>8.9</td>
<td>3.7</td>
<td>0.6</td>
<td>29.2</td>
</tr>
<tr>
<td>1992</td>
<td>1,350.0</td>
<td>185.1</td>
<td>37.2</td>
<td>13.8</td>
<td>4.2</td>
<td>0.8</td>
<td>38.4</td>
</tr>
<tr>
<td>1995</td>
<td>1,772.1</td>
<td>197.9</td>
<td>35.2</td>
<td>14.1</td>
<td>5.6</td>
<td>1.1</td>
<td>43.9</td>
</tr>
<tr>
<td>1998</td>
<td>2,525.2</td>
<td>291.5</td>
<td>79.5</td>
<td>27.6</td>
<td>9.2</td>
<td>1.7</td>
<td>71.8</td>
</tr>
<tr>
<td><strong>All other assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>$2,620.7</td>
<td>$452.5</td>
<td>$215.0</td>
<td>$119.5</td>
<td>$64.7</td>
<td>$15.4</td>
<td>$130.7</td>
</tr>
<tr>
<td>1983</td>
<td>6,020.1</td>
<td>781.4</td>
<td>315.9</td>
<td>162.5</td>
<td>80.0</td>
<td>16.8</td>
<td>217.0</td>
</tr>
<tr>
<td>1989</td>
<td>8,367.1</td>
<td>859.0</td>
<td>339.6</td>
<td>185.5</td>
<td>89.1</td>
<td>19.3</td>
<td>257.0</td>
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<tr>
<td>1992</td>
<td>7,978.7</td>
<td>849.4</td>
<td>298.3</td>
<td>164.3</td>
<td>81.5</td>
<td>19.1</td>
<td>242.4</td>
</tr>
<tr>
<td>1995</td>
<td>7,037.1</td>
<td>710.0</td>
<td>275.2</td>
<td>153.2</td>
<td>88.0</td>
<td>20.6</td>
<td>217.3</td>
</tr>
<tr>
<td>1998</td>
<td>7,961.1</td>
<td>826.2</td>
<td>331.3</td>
<td>181.1</td>
<td>97.6</td>
<td>23.8</td>
<td>246.0</td>
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<tr>
<td><strong>Total debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>$177.9</td>
<td>$34.8</td>
<td>$25.8</td>
<td>$26.7</td>
<td>$26.4</td>
<td>$14.8</td>
<td>$23.8</td>
</tr>
<tr>
<td>1983</td>
<td>409.1</td>
<td>68.1</td>
<td>49.2</td>
<td>33.5</td>
<td>26.1</td>
<td>12.5</td>
<td>32.1</td>
</tr>
<tr>
<td>1989</td>
<td>446.1</td>
<td>90.8</td>
<td>49.1</td>
<td>44.4</td>
<td>34.0</td>
<td>24.0</td>
<td>42.7</td>
</tr>
<tr>
<td>1992</td>
<td>532.2</td>
<td>123.2</td>
<td>51.6</td>
<td>42.5</td>
<td>33.9</td>
<td>17.6</td>
<td>44.0</td>
</tr>
<tr>
<td>1995</td>
<td>386.8</td>
<td>90.2</td>
<td>47.5</td>
<td>42.5</td>
<td>44.6</td>
<td>20.7</td>
<td>42.5</td>
</tr>
<tr>
<td>1998</td>
<td>282.6</td>
<td>104.9</td>
<td>66.0</td>
<td>47.4</td>
<td>45.8</td>
<td>24.4</td>
<td>47.5</td>
</tr>
<tr>
<td><strong>Net worth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>$4,851.8</td>
<td>$540.9</td>
<td>$202.9</td>
<td>$97.2</td>
<td>$39.4</td>
<td>$0.8</td>
<td>$145.1</td>
</tr>
<tr>
<td>1983</td>
<td>7,175.1</td>
<td>814.2</td>
<td>278.7</td>
<td>133.6</td>
<td>55.5</td>
<td>4.7</td>
<td>212.6</td>
</tr>
<tr>
<td>1989</td>
<td>9,101.7</td>
<td>897.9</td>
<td>315.9</td>
<td>150.0</td>
<td>58.8</td>
<td>(4.1)</td>
<td>243.6</td>
</tr>
<tr>
<td>1992</td>
<td>8,796.4</td>
<td>911.3</td>
<td>283.9</td>
<td>135.7</td>
<td>51.9</td>
<td>2.2</td>
<td>236.8</td>
</tr>
<tr>
<td>1995</td>
<td>8,422.5</td>
<td>817.7</td>
<td>262.8</td>
<td>124.8</td>
<td>49.1</td>
<td>1.0</td>
<td>218.8</td>
</tr>
<tr>
<td>1998</td>
<td>10,203.7</td>
<td>1,012.7</td>
<td>344.9</td>
<td>161.3</td>
<td>61.0</td>
<td>1.1</td>
<td>270.3</td>
</tr>
</tbody>
</table>

* All direct and indirect stock holdings.

### TABLE 3
Credit Card Payment Patterns by Age Group, 1998 (self-reported in percentages)

<table>
<thead>
<tr>
<th>Age of Family Head</th>
<th>Almost always Pay off Balance</th>
<th>Sometimes Pay off Balance</th>
<th>Hardly Ever Pay off Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 35</td>
<td>39.0</td>
<td>22.5</td>
<td>38.5</td>
</tr>
<tr>
<td>35-44</td>
<td>46.5</td>
<td>19.1</td>
<td>34.4</td>
</tr>
<tr>
<td>45-54</td>
<td>48.2</td>
<td>22.7</td>
<td>29.1</td>
</tr>
<tr>
<td>55-64</td>
<td>61.0</td>
<td>20.1</td>
<td>18.9</td>
</tr>
<tr>
<td>65-74</td>
<td>74.0</td>
<td>14.9</td>
<td>11.1</td>
</tr>
<tr>
<td>75 and older</td>
<td>86.3</td>
<td>7.8</td>
<td>5.9</td>
</tr>
</tbody>
</table>

NOTE: General-purpose credit cards include MasterCard, Visa, Optima and Discover.

### TABLE 4
Credit Card Payment Patterns by Age Group, 1995 (self-reported, in percentages)

<table>
<thead>
<tr>
<th>Age of Family Head</th>
<th>Almost Always Pay off Balance</th>
<th>Sometimes Pay off Balance</th>
<th>Hardly Ever Pay off Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 35</td>
<td>40.2</td>
<td>23.5</td>
<td>36.3</td>
</tr>
<tr>
<td>35–44</td>
<td>40.7</td>
<td>26.9</td>
<td>32.4</td>
</tr>
<tr>
<td>45–54</td>
<td>47.1</td>
<td>22.5</td>
<td>30.4</td>
</tr>
<tr>
<td>55–64</td>
<td>59.3</td>
<td>18.4</td>
<td>22.3</td>
</tr>
<tr>
<td>65–74</td>
<td>72.0</td>
<td>12.9</td>
<td>15.1</td>
</tr>
<tr>
<td>75 and older</td>
<td>85.8</td>
<td>2.5</td>
<td>11.7</td>
</tr>
</tbody>
</table>

NOTE: General-purpose credit cards include MasterCard, Visa, Optima, and Discover.
generational attitudes toward debt (and receptivity to mass marketing campaigns) as well as the financial squeeze on younger households that are in the middle of their lifecycle. Not surprisingly, this was facilitated by the aggressive marketing of bank and retail credit cards to traditionally neglected groups such as college students and the working poor.

PRESERVING OR SUBMERGING THE U.S. MIDDLE CLASS:

The Rising Cost of Credit

Today, three out of five U.S. households are responsible for the approximately $580 billion in outstanding credit card debt. Among these "revolvers," credit card debt averages over $11,000 per household. Even the robust wage increases of the last three years do not compensate for the rising cost of financing personal debt; only home mortgage related interest is tax deductible. Hence, a four percent increase in the annual median income of U.S. family households (about $50,000) is nearly the same as the average cost of financing household credit card debt (17% excluding fees) or approximately $2,000. And, this does not include the tremendous growth of finance companies (over 24% APR) and the rising cost of "second-tier" banks. See Table 4.

The enormous profits of the latter explain the recent entry of the largest "first-tier" banks into providing second-tier financial services. For instance, Wells Fargo formed a joint venture with Cash America (largest U.S. pawnshop company) in 1997 to develop a state-of-the art system of automated, payday loan kiosks. In September 2000, Citigroup purchased Associates First Capital Corp ($31.1 billion)—the largest publicly traded U.S. finance company—with one of the most notorious business reputations as "predatory lender" in the ‘subprime’ consumer markets. Within six months, the Federal Trade Commission (FTC) had filed a complaint in federal court with "systematic and widespread abusive lending practices."9 Overall, credit card interest charges, penalty fees, and second-tier finance costs could total over $140 billion in 2001. This is an enormous transfer of income to an industry that has slashed jobs, cut wages, and

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TABLE 4

Cost of Second-Tier Financial Services

<table>
<thead>
<tr>
<th>Check Cashing</th>
<th>Pawnshop Loan</th>
<th>Car Title Loan&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Rent-to-Own</th>
<th>Cash Leasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0–3.0%</td>
<td>5–25%&lt;sup&gt;b&lt;/sup&gt; month</td>
<td>2.5–25% month</td>
<td>15–30% month</td>
<td>30% per 15 days</td>
</tr>
<tr>
<td>2–3 days</td>
<td>15–25% month (unregulated)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APR</td>
<td>60% (regulated)</td>
<td>30–300%</td>
<td>180–360%</td>
<td>730%</td>
</tr>
<tr>
<td>122–365%</td>
<td>180–240% (unregulated)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Payday loans (2 weeks)
- 11–21% 12–21%
- APR 286–546% 312–546%

CFA-PIRG National Survey<sup>c</sup>
- APR 260–988%

<sup>a</sup>Established by state and local usury laws. For instance, Wisconsin and six other states do not have an interest rate ceiling for consumer loans. In comparison, New Jersey limits most consumer loans to a maximum of 30% APR.

<sup>b</sup>The District of Columbia restrict pawnshop loans to a maximum of 5% per month, although related fees can increase the total cost of loans. In comparison, the maximum monthly rate in Florida is 25%.

<sup>c</sup>In a 1999 survey of 230 payday lenders in 20 states, conducted by Consumer Federation of America and Public Interest Research Group (2000), the average APR was 474%. Nationally, only 19 states currently prohibit payday lending through statutory interest rate ceilings or usury laws.

SOURCE: Author's fieldwork in metropolitan Washington, D.C., and Orlando, Florida.
raised consumer prices. In terms of stimulating a more rapid economic recovery, the effect could be a significant reduction in the effective demand of U.S. households as the purchase of goods and services is subordinated to the payment of rising finance charges attributed to previous consumption. This is especially important in terms of the current impasse in reconciling the U.S. Senate and House versions of the Consumer Bankruptcy Reform Act which would limit the use of Chapter 7 (discharge of unsecured consumer debts).

Not only are most U.S. households being squeezed by mounting mortgage and consumer debt, but the "real" cost of "prime" consumer loans has risen dramatically since the de-regulation of financial services in 1980. For instance, the real cost of corporate credit (prime rate) has increased only marginally (2.5%-3.0%) whereas the real cost of consumer credit card debt has almost doubled (less than 6% to over 11%) since the early 1980s—not to mention soaring penalty fees (about 30 percent of all credit card revenues). In comparison, the cost of automobile loans has varied more closely with the prime rate as the Big Three have subsidized this rate to stimulate auto sales. See Figure 1. Furthermore, the ninth rate cut by the U.S. Federal Reserve during the year has driven the Federal Funds (overnight) rate to a 40 year low—from 6.5 to 2.5 percent. Even so, with the cost of borrowing at historic lows for the credit card industry, most variable rate accounts have quickly reached their "floors" and the savings are not being passed on to consumers. Instead, the credit card industry has redefined its clients' relationship—from specific companies to the entire financial services industry—so that negative financial information can be used to increase consumer costs through higher interest rates, penalty fees, balance transfer transactions, etc.

While the industry has been refining the art of targeting clients that are least likely to repay their loans, the alternatives to consumers have been rapidly dwindling. For example, in contrast to descriptions of the credit card industry as highly competitive with 6,000 competitors, the reality is that the last decade has witnessed a dramatic consolidation of credit card issuers. In 1977, the top 50 banks accounted for about half of all U.S. credit card accounts. The impressive revenues of most credit card portfolios have precipitated massive mergers and acquisitions over the last decade. For instance, Banc One's acquisition of credit card giant First USA in 1997 was followed by Citibank's purchase of AT&T's credit card subsidiary—the eighth largest in 1998. Today, the top ten card issuers control over three-fourths of the credit card market and nearly 70 percent of the
Credit card, home equity loan, and car loan interest rate spread by type of loan.
over 1.3 trillion in credit card charge volume. Not surprisingly, competition for clients is less likely to be expressed in the form of lower prices. Indeed, it is striking that the average cost of consumer credit card debt had risen over the last five years until the succession of rate cuts over the last 8 months.

Second, the enactment of the 1998 Financial Services Modernization Act has precipitated a new trend in the formation of consumer financial services conglomerates. For instance, the 1998 merger of Citicorp with Traveler's Group has created a new role for consumer credit cards: compiling consumer information files. Credit cards provide a lucrative revenue stream for conglomerates such as Citigroup as well as strategic information for the cross-marketing of other financial services such as insurance, investment services, student loans, home mortgages, and consumer loans. By combining different sources of consumer activities from various corporate subsidiaries (e.g. Traveler's Insurance, AT&T credit cards, Solomon Smith Barney investments), plus the forging of strategic partnerships with specific corporate retailers, these conglomerates are developing increasingly cost-effective marketing campaigns for persuading customers to use their credit for purchasing products from members of the conglomerate's extended corporate family.

It is not surprising, then, that the major credit card associations recently have begun marketing credit cards to teenagers with the required financial contract signed by their parents or guardians. This card program is ostensibly designed to help promote financial responsibility by encouraging parents to discuss financial purchases/budgets with their minor children. Of course, financial education could be promoted through the use of debit cards or personal checks. Indeed, the key objective is to promote credit card use at an early age, especially purchases through virtual internet shopping malls. Furthermore, this credit card program facilitates the collection of consumer information at an earlier age as well as the direct marketing of teenagers without the filter and/or confusion of distinguishing the purchases of children from their parents. By issuing credit cards in a teenager's name, companies are seeking to shape consumption behavior and corporate loyalties at an earlier age while minimizing the influence of their parents.

Third, the growth of subprime credit cards has led to outrageous financial terms for the most naive and inexperienced market of the working poor. With annual percentage interest rates of over 30 percent and costly hidden charges, even large issuers have been formally reprimanded and even sued over
duplicitious advertising. For example, the sixth largest credit card issuer, Providian National Bank, agreed to an out-of-court settlement for a record $300 million in June 2000. According to the U.S. Comptroller of the Currency, John D. Hawke Jr., We found that Providian engaged in a variety of unfair and deceptive practices that enriched the bank while harming literally hundreds of thousands of its customers. They include a “no annual fee” program that failed to disclose that the card required the purchase of $156-a-year plan credit-protection plan; customers who complained were informed that the plan was mandatory unless an annual fee was paid.

For those who desperately seek a credit card as a bank account of last resort, the terms that are required of subprime applicants especially the working poor include unwanted educational materials and high membership fees with little available credit. This is illustrated by the conditions of the United Credit National Bank Visa. It’s direct mail solicitation declares,

“ACE VISA GUARANTEED ISSUE or we’ll send you $100.00! (See inside for details.)” For those who bother to read the fine print, and a magnifying glass would be useful in this case, the terms of the contract are astounding, “Initial credit line will be at least $400.00. By accepting this offer, you agree to subscribe to the American Credit Educator Financial and Credit Education Program. The ACE program costs $289.00 plus $11.95 for shipping and handling plus $19.00 Processing Fee a small price to pay compared to the high cost of bad credit! The Annual Card Fee [is] $49.00... For your convenience, we will charge these costs to your new ACE Affinity VISA card. [They] are considered Finance charges for Truth-In-Lending Act purposes.”

Unbelievably, an unsuspecting applicant could pay $369 for a net credit line of only $31 at a moderate 19.8 APR. It is no wonder that those households who are most desperate for consumer credit often give up on the financial services sector after they realize the exploitative terms of these contracts.

A final issue concerns the trend of consumer financial services conglomerates of replacing traditional, low cost consumer and small business loans with higher cost substitutes. For instance, in low-income neighborhoods, this may result in the closing of a first-tier bank branch and its replacement with high cost, finance companies (such as Citigroup’s newly acquired Capital Associates) or second tier “fringe banks” such as check cashing outlets,
pawnshops, and rent-to-own stores. Especially disconcerting is the application of this policy to the small business sector. Today, the number one source of start-up financing for small businesses is credit cards followed by home equity loans. Aspiring entrepreneurs—especially women and minorities—are routinely denied small business loans and encouraged to assume higher cost, credit card debt. As one owner of a computer supply company explained, "I wanted a business loan [from Wells Fargo] but all I got was another credit card instead." This trend has potentially serious consequences as credit cards have dramatically changed from the credit of last resort to the initial source of start-up financing. Since small businesses are the primary source of net job growth in the U.S. economy, this trend could have severe repercussions during the next economic downturn. That is, small entrepreneurs may not be able to survive unfavorable economic conditions after exhausting their high cost lines of consumer credit at the same time that the economy needs to generate more jobs. This restrictive corporate lending policy could exacerbate an economic slowdown and possibly contribute to a recession. The current bankruptcy reform bills could exacerbate the plight of small businesspeople by requiring asset liquidation after the expiration of the 179-day reorganization period if the company is unable to begin paying its creditors. It could also lead to dual bankruptcies: business and consumer as entrepreneurs try to survive on their personal lines of credit.

The increasingly important role of banks in restricting the financial lifeblood of small businesses during the current recession is contrasted by the increasingly sophisticated efforts to encourage students to incur increasingly higher levels of debt at earlier ages; in the late 1980s, banks began marketing to college seniors who "had one foot out the door and in the labor market" for feature that underclassment were too irresponsible and would not pay their credit card debts. As banks realized that students would use summer savings, student loans, parental assistance, and even other credit cards to service their debts, student credit lines steadily increased over the 90's. As the profitability of market became apparent, banks began offering multimillion dollar deals with college administrators for "exclusive" marketing of Alumni "affinity" cards. Today, the rapidity of this impact on bankruptcy rates is staggering.

Nationally, young adults 25 years-old and younger have experienced a dramatic rise in their bankruptcy rates. This is especially significant in view of the overall decline of nearly 15 percent since 1998. In 1995, with a near record level of nearly 900,000 bankruptcies, less than 1 percent or under 9,000 bankruptcy
filers were 25 years old or younger. When U.S. personal bankruptcies peaked at 1.4 million in 1998, this included about 68,000 young adults or approximately 4.9 percent of the total. Today, this proportion of bankruptcy filers has jumped sharply, to over 10 percent in 2000. With a sharp slowdown in the U.S. economy’s growth and sustained increase in student debt levels, the analysis of bankruptcy subgroups will be instructive. In particular, there is a paucity of data on the experience of recent college graduates in their accumulation of personal debt after leaving school and before they begin their first job. Previously research has shown that this period can lead to a disproportionately large amount of debt that may not be able to be serviced in later years. This issue is especially important since the bankruptcy reform bill will retain the nondischargeability of student loan debt—even the amount that includes consumer debt like credit card balances. This could lead to multiple bankruptcies among the youngest age cohorts.

The most striking result of the enormous increase in revolving or noninstallment credit/debt (primarily credit cards) is that earlier “good” consumer loans are transformed into “bad” debts after households cross the threshold of the ability to service their financial obligations. For example, students with little financial experience/economic reserves that can not find a well-paying job—especially during a recession—may not be able to pay for their student loans AND revolving debts. More importantly, households that are barely able to financially survive during the best of times with large liabilities are too often incapable of coping with unexpected financial crises. The most recent research cites medical expenses followed by job disruptions and family crises (divorce, widowhood, parental care) as the most important factors that push Americans into the financial abyss of bankruptcy.10 It is for these reasons that the Age of Affluence produced a perplexing relationship between unemployment and bankruptcy rates during the early years of banking deregulation.

This counterintuitive trend is illustrated in Figure 2. During the 1982-83 recession, the increase in consumer bankruptcies began to diverge from the unemployment rate. That is, from 1985-89, unemployment declined while consumer bankruptcy increased. During the 1989-91 recession, the bankruptcy

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- U.S. Personal Bankruptcy Filings
- U.S. Unemployment Rate

Figure 2

1980-2000
rate rose closely with the unemployment rate but then is diverged sharply during 1994-98 as bankruptcies spiraled upward (record 1.4 million in 1998) while the unemployment rate fell below 4 percent. Although bankruptcies dipped to nearly 1.2 million in 2000 with the continued slide in the unemployment rate, the sharp rise in the first two quarters of 2001 (before the onset of the recession) suggest that a new consumer bankruptcy record may be established this year. It is the profound change in the attitudes and use of consumer credit that have contributed to unrealistically high levels of debt that have made large segments of the middle-class and working poor so vulnerable to unexpected financial crises. The following case-studies illustrate the influential role of credit card marketing (and, indirectly, the impact of banking deregulation), the inability of highly leverage households to cope with unexpected financial difficulties, and the growing use of consumer credit to compensate for declining worker compensation and the reduction of social services due to the contraction of the welfare state.

"Plastic Money for Real People"

--- College Marketing Campaign by Associates National Bank

The lack of individual responsibility in the assumption of escalating levels of consumer debt is the cornerstone of the credit card industry's argument for the reform of existing bankruptcy laws. The emphasis on "If you play then you should pay" belies the dramatic shift in the promotion of high interest, unsecured lines of credit which are most efficiently provided through universal or bank credit cards. As the credit card industry successfully increased the "real" cost (net of inflation) of consumer credit and saturated middle-class households in the 1980s, the spectacular profits of the consumer-debt driven economy led to banks to finance enormous marketing campaigns that sought to penetrate nontraditional markets in the late 1980s. The abrupt change in the industry's underwriting standards for these loans raises the question of whether these new, far less stringent lending criteria are encouraging American households to borrow more money than banks know they can ever possibly repay. Ironically, these new groups tend not to be engaged in full-time employment nor are they adequately educated on the lending policies of the financial services industry: college students and senior citizens.

In terms of college students, the lack of information on their consumer debt levels (obscured by student loans, private loans, direct parental payments,
and other forms of family assistance), has led to the surprising discovery that the fastest growing group of bankruptcy filers is 25 years old or younger. The credit card industry has funded research studies that present an idyllic world of tech savvy and financially responsible college students that belie the escalating social problems associated with credit card debt. Through the Arose colored glasses" of the credit card industry, which claims that approximately 3 out of 5 college students pay off their charges at the end of each month, the credit card is portrayed as a “knight in shining armor” a la Jerry Seinfeld’s advertisements for American Express. Instead, the flawed research methodology of these few industry sponsored studies ignores such crucial trends as the use of student loans to pay credit card debts (80% of college students are enrolled in public schools), surveys that explicitly exclude students that have dropped out of college due to high credit card debts, informal family loans or payments for reducing high interest credit card debt, supplementary private loans for paying off credit card debts, and inclusion of parents’ credit cards (where students are secondary card users that are not responsible for monthly charges). Furthermore, by focusing on the lifestyle enhancements that credit cards offer to “mature” students, public attention has been directed away from the social problems that have emerged from their unprecedented expansion over the last decade.

These include physical maladies (from anxiety, excessive smoking and drinking, depression), parental authority conflicts, loss of scholarships due to extra jobs for monthly payments (low grades), job rejection, denial of auto and home mortgage loans, rejection for student loans for graduate and professional school, decline of apartment rental applications, increasing defaults on federal student loans, and, in the most extreme cases, student suicides; the latter was recently reported in a Sixty Minutes II program (www.cbs.com and www.creditcardnation.com). Not incidentally, the sharp increase in consumer debt among college students has defied the recent decline in consumer bankruptcies; last year, the number of bankruptcy filers 25 years old or younger jumped to nearly 150,000. In view of the enormous increase in consumer credit offered to college students and the ongoing slowdown in the U.S. economy, the experiences of recent college graduates offers instructive insights into industry responsibility in the rapidly growing group of bankruptcy files. Significantly, the case-studies reported in my 1999 study include students whose parents emphasized the importance of credit as a convenience and debt as a moral vice.
Even in these cases, the promotion of credit cards on college campuses--where universities “earn” multi-million dollar annual ‘royalties’ for exclusive credit card marketing agreements--quickly erodes cautious family values toward the use of consumer credit and the accumulation of debt.

For example, beginning with his middle-class upbringing in Indiana, where his father inculcated the Midwestern values of frugality and debt avoidance, Jeff entered Georgetown University in 1995 with a commitment to conduct his financial affairs on a cash-only basis. Initially, he socialized with students like himself--from moderate income Midwestern families--whom shared similar social backgrounds and cultural experiences. But, Jeff soon realized that he wanted to transcend his family background and enjoy the more exciting lifestyle of his more affluent and urbane friends such as his roommate. At first, his adherence to the “cognitive connect” (i.e., that his income/resources must determine consumption) made him “stand out” among his peers. For instance, Jeff’s father always paid restaurant bills in cash. His motto is, “if you don’t have the cash then you shouldn’t buy it.” Jeff’s new friends, however, associated this behavior with the quaint and backward cultural practices of Depression era farmers. Rare is the situation when their parents use cash for common financial transactions.

This clash of cultures led Jeff to apply for a credit card. He received two credit cards his first semester including a Gold MasterCard. Although Jeff initially obtained his credit cards for convenience, he was impressed by the favorable response of others to his Gold credit card, “It made me feel like I had made it... people treated me different when they saw [the Gold card].” Jeff acknowledges that this new respect was premature, since he did not yet have a “real” job, but perceived it as an early recognition of his future social status as a graduate from a prestigious university. Significantly, Jeff first began using his credit cards like cash, paying off the balances at the end of the month, “Why pay cash. [Afterall] what’s the point of having a credit card.” His other reason for obtaining credit cards was for emergencies. Hence, as long as Jeff’s savings and loans could finance a carefree lifestyle, his credit cards served as a modern convenience that befitted his status as a student at an elite, private university. Of course, this situation quickly changed when his financial resources were exhausted in the fall of his sophomore year.

As a freshman, Jeff saw his credit cards as his best friend, an angel of mercy during crisis situations. At first, I decided that my credit cards would only accumulate debt in case of emergencies, such as being stranded in an airport
and needing a [plane] ticket. After a while, I decided that it was okay to charge necessary things like books and other school related expenses... Then, after charging for “needs,” it was just so easy... I decided that it was okay to charge anything I damn well wanted.” As his debt increased, with 8 new credit cards during his sophomore year, Jeff became disheartened. Although they enabled him to rebel against the strict social control of his father, Jeff was now encumbered with several thousand dollars of debt. Over time, Jeff confounded his pursuit of personal independence with the rejection of the cultural ethos of the “cognitive connect.” Afterall, he argued, consumer debt it is a common--even modern--trend of professionally successful people and “everyone else I knew was in debt... and so were many of their parents.” Among his peers, they rationalized their indolent spending behavior by emphasizing “the great jobs that we will get [after graduation] that will enable us to pay off our credit card [debts].”

At the onset of his college career, Jeff’s conservative Midwest background made him a most unlikely candidate for accumulating a large credit card debt. However, with tuition over $23,000 per year at Georgetown University, Jeff quickly exhausted the $40,000 “loan” that his parents saved for his college education. And, with a combined household income of over $100,000, his financial aid was primarily limited to student loans. Unlike students at less costly public colleges, moreover, Jeff was not able to transfer any of his personal debts into student loans. This is because Jeff’s student loans paid only a fraction of Georgetown’s tuition while his duties as an on-campus resident hall advisor (RA) provided his room and board. Jeff’s family inculcated the importance of adhering to the ‘cognitive connect’ of consuming only what could be paid in cash; credit card use was acceptable only if one had sufficient savings or earnings that “could back up your purchases.” Initially, Jeff succumbed to the temptations of credit cards for non-economic reasons. They offer emotional security in case of personal “emergencies” and alleviate social status anxiety because “people treat me so much better when they see my Gold [American Express, MasterCard] cards.” Jeff’s first credit card was an impulsive response to a Citibank advertisement “that was hanging on the wall in the dorm.” The Visa card offered a credit limit of $700 with an introductory rate of 4.9%. By the end of his freshman year. Jeff had received three credit cards which were used primarily for entertainment-related activities.

The shift from using credit cards for convenience to financing an inflated standard of living was a normal extension of Jeff’s college experience. As he
explains, “Everyone has to take on debt to go to college... everyone is expected to have student loans... Even in my Midwestern [culture] which emphasizes that debt is bad, college loans are viewed as good debt... Low interest rates... High price of college equals high value... [produces] a greater return on your investment.” By the middle of Jeff's sophomore year, he had exhausted his parents' college “loan.” At this point, he confronted a profound crossroads in his college career. Either he fundamentally altered his consumer oriented lifestyle or abandon his familial attitudes toward debt. Faced with the choice of losing his more “sophisticated” and urbane friends, whom view debt as a necessary means to a justifiable end, Jeff easily accumulated 8 more credit cards in 1997.

The most striking feature of Jeff’s credit card use is how quickly he abandoned the virtue of frugality as a necessary means for establishing his own social identity outside of his father's strict control. Afterall, the culture of consumption that permeates collegiate life views saving as a practice of “hicks” while debt is the “breakfast of champions.” By the end of his sophomore year, Jeff had accumulated a couple of thousand dollars in credit card debt. Instead of beginning his junior year with savings from his summer job, most of Jeff’s earnings were used to pay off his credit cards. Significantly, as his credit card balances rose, Jeff received congratulatory letters from credit card companies extolling his good credit history and raising his credit limits as a “courtesy to our best customers” so that he could avoid over limit fees. Although he has never earned $10,000 in annual income, the deluge of credit card offers obscured the fragility of his Jeff's financial circumstances, “with the constant arrival of new “pre-approved” credit card applications AND the raising of my credit limits the credit card companies made it seem like [my level of debt] was okay... When I started to fall behind, I even received letters that allowed me to ‘skip a payment—because the company ’understood’ that sometimes debts can back-up such as during the holidays.” It was during this period that Jeff eagerly embraced the marketing ploys of the credit card industry so that he could accumulate “miles” or “points” for frequent flier and consumer gift programs. More importantly, this practice led to surfing” or transferring debt from high to low interest “introductory rate” credit cards.

As Jeff learned to “tread water” by “surfing” in this period, he learned the next lesson of the credit dependent: the “credit card shuffle.” That is, paying his credit card bills with other credit cards through monthly balance transfers and ‘courtesy checks.’ This acceptance of his new debtor status was disheartening
but I rationalized it by telling myself that everyone else is in debt... Afterall, I'm going to get a great job and pay it off." The "good" or "responsible" credit card debt such as school related expenses, a personal computer, and work suits was soon taken over by entertainment on weekends, restaurant dinners, spring break in Florida and then London and Canada. With one ten-day vacation costing over $5,000, Al even charged the passport application fee," Jeff found himself on the verge of exhausting his available cash and credit. Fortunately, the university credit union is willing to assist students like Jeff whom find themselves "drowning in credit card debt... most of the people I know that go to the credit union are getting loans to pay their credit cards." Without the option of federally guaranteed student loans to service his credit card debts, Jeff received a $10,000 loan at a moderate 11.9 percent. This credit union loan essentially "bought some time" for Jeff before entering the job market--an option not available to most college students. Not incidentally, a condition of the loan disbursement was that $3,000 had to be used to pay off one of his credit cards. The balance of the loan was spent on school expenses as well as catching up on his other monthly credit card payments.

During his junior year, Jeff began to engage in riskier and more creative credit card schemes. For instance, he began "surfing" which entails transferring debts from high interest rate cards to those with much lower albeit temporary "introductory" rates. As Jeff learned how to lower his monthly payments through this technique, he began to exhaust his lines of credit. Instead of triggering cautionary warnings from his credit card companies, Jeff received new "Pre-Approved" credit card solicitations and congratulatory letters announcing that he had "earned" an increase in his credit limits. He even began receiving letters that encouraged him to miss a payment, such as during holiday gift-giving seasons, while lauding his good credit history. These mixed messages are easy for college students to misinterpret. Indeed, Jeff rationalized that his accumulating debt was not very serious since the credit card companies "made it seem that everything was okay by sending new applications AND raising existing credit limits." During this period, moreover, Jeff became so dependent on ATMs (his parents never used them) that he did not even think about the transactional costs ($1.50-$3.00). As cash advances became more frequent, he did not want to know that the fees and higher interest rates made their cost comparable to short-term pawnshop loans. Eventually, he "hit the [financial] wall" when his meager stipend as a residence hall advisor made it difficult to send even minimum credit
card payments. The $10,000 debt consolidation loan from the university credit union temporarily averted an economic crisis. But, this proved to be only a temporary financial “band-aid.”

Ironically, a contributing factor to his financial crisis was two failed business ventures with his roommate which were intended to eliminate their debts. The first was a service to translate resumes of Mexican and other Latin American students whom were seeking internships or applying to colleges in the United States. Encouraged by friends seeking their assistance, they purchased all the necessary office equipment of a high-tech company: computer, fax machine, cell phones, executive chairs, high quality business cards and fliers, web site fees, P.O. box, and legal fees for incorporation in Delaware. After several months without clients and rapidly depreciating business technology, Jeff and his “partner” opted to “cut our losses” and terminate the business. Each lost over $2,500. To add further financial insult, they had to pay additional legal fees to dissolve their corporation and are still paying the contract for their listing with an internet “search engine.”

Following this entrepreneurial debacle, they sought to recoup their losses through the stock market. Instead of becoming more cautious about debt, “our credit cards allowed us to get too big for our britches” According to Jeff, Amy roommate found out that his company was going to be bought out. So, he was convinced that we would make a quick profit if we bought some stock before [the acquisition]... a sure winner! We each bought $5,000 worth of stock with cash advances from our credit cards... with e-trade we even saved on brokers’ commissions... The company was bought-out alright but then it was cannibalized and the stock fell... We each lost over $3,000.” When asked why they pursued such risky ventures while still in school, Jeff responded, “Because we could! The courtesy checks gave us the opportunity act on our impulses.”

By the end of Jeff’s junior year, the social empowerment provided by his 11 bank and 5 retail credit cards had changed dramatically: they had evolved from friends to foes. The social “doors” that they had previously “opened” were now increasingly closed. Jeff was “so concerned about meeting the right people and fitting in with them... that [he] did not think twice about $50 bar tabs and spending spring break in London... To think otherwise would have meant certain social death.” Fortunately, Jeff was forced to confront his situation after realizing that “I no longer had control over my credit cards. Now, they controlled me.” The earlier freedom to “act like an adult” had been replaced with the financial
responsibility of paying for his earlier excesses. Indeed, rather than enjoying his final year at college, Jeff is enduring social hell by working full-time while taking a normal course load and applying/interviewing for jobs. He works at least 30 hours per week at two part-time jobs (in addition to his position as a resident advisor) simply to make the minimum payments on his $20,000 credit card debt and $10,000 debt consolidation loan. Most of his friends have stopped calling to make plans for the weekend because he is “shackled to my credit cards... I can’t go out with them like I used to because I have to work... ultimately, to pay for the fun that I charged on my credit cards a couple of years ago.”

Today, Jeff views his credit cards with complete disdain, Al hate them.” He is delinquent on many of his accounts and has threatened to declare bankruptcy unless the banks offer him more favorable interest rates. Ironically, Jeff’s social odyssey of the last four years has brought him “full-circle” in affirming his father’s mantra toward debt: “if you can’t afford it, don’t buy it.” What angers him the most about credit card marketing campaigns on campus is that they extol the benefits of ‘responsible use’ but neglect to inform impressionable and inexperienced students about their “downside” such as the impact of poor credit reports on future loans and even prospective employment. This is crucial, according to Jeff, because he now understands that “the credit card industry knows exactly what it is doing [in encouraging debt] while taking advantage of students whom are trying to learn how to adjust to living away from home, often for the first time... Let’s face it, how can these banks justify giving me 11 credit cards on an annual income of only $9,000. These include a Gold American Express and several Platinum Visa cards.”

Although Jeff does not dismiss his financial responsibility, he states that Al almost feel victimized... giving credit cards to kids in college is like giving steroids to an athlete. Are you not going to use them after you get them?” Furthermore, as a dorm Resident Advisor (RA), Jeff emphasizes that the university offers an wide range of student informational programs and services but with one notable exception, “there if nowhere to go for debt counseling... everything is discussed in Freshman Orientation or incorporated in Resident Advisor training and residence hall programs... AIDS, suicide, eating disorders, alcohol, depression, peer pressure, sex ed, academic pressures, learning handicaps... all but financial crisis management.”

As Jeff has “gone full circle” in his attitudes toward credit cards, he is now coping with the unexpected “pain” of his past credit card excesses. Over
$20,000 in credit card debt (plus his $10,000 debt consolidation loan and over $30,000 in student loans), Jeff has washed ashore from his “surfing” escapades. Although working two part-time jobs during his senior year, Jeff is now delinquent on several of his 16 credit cards. A business major, Jeff is anxiously awaiting the outcome of his job search. He is optimistic as some of his peers have already received starting salaries that range from $40,000 to $55,000 per year. In addition, several have received signing bonuses between $3,000 and $10,000. For Jeff, the latter is especially important because he plans to use this money to reduce his credit card debt.

Unfortunately, Jeff’s promising career is encountering obstacles from an unexpected source—his credit cards. During a recent interview with a major Wall Street banking firm, Jeff was asked, “how can we feel comfortable about you managing large sums of our money when you have had such difficulty in handling your own [credit card] debts—” Jeff was stunned. It was obvious that the interviewer had reviewed his credit report—without prior notification—in evaluating Jeff’s desirability to the firm. “Can you believe it,” Jeff declared, “they want an explanation about my personal finances in college and yet they lost over $120 million last year!”

In their decision not to offer him employment, Jeff wonders how much was based on his GPA and how much on the “score” calculated by the consumer credit reporting agency. This is certainly not a potential consequence that is explained by the credit card industry when it exclaims, “Build your credit history... you’ll need [it] later for car, home or other loans.” As Jeff passes by the MBNA Career Center on campus, which is named after the credit card company that he owes several thousand dollars, the irony of his “catch-22” situation is not lost on him, “how can I pay them back when their credit reports are hurting my chances of getting a good job!” It is not surprising that growing numbers of students like Jeff are increasingly using sexual analogies in describing their unforeseen circumstances. More bluntly, they are denouncing the predatory policies of the credit card industry as a form of “financial rape.”

As Jeff’s experience shows, student financial strategies are becoming increasingly complex as credit card companies offer “the [financial] freedom to hang ourselves.” Even students at expensive private schools are finding ways to transfer their credit card debt into supplementary loans without the knowledge of their parents. This increasingly popular practice helps to explain the wide vacillation in student credit card balances due to infusions of cash from other
sources of loans. In addition, Jeff demonstrates how access to credit facilitates costly purchases that would not have been considered under the financial constraints of a typical student budget. The latter is especially disconcerting. It reflects the strong influences of escalating peer consumption pressures as well as sophisticated marketing campaigns that target the youth culture. One of the most seductive is the Sony advertisement, "Don’t deny yourself. Indulge with the Sony [Visa] Card from Citibank... The official currency of playtime," Or, more succinctly, the ubiquitous NIKE slogan, "Just Do It." Although Jeff has so far avoided personal bankruptcy by securing a well-paying job with a commercial real estate developer, he notes with concern that some of his classmates have already been laid off due to the slowdown of the economy. In fact, some of his highest salaried classmates have become victims of the "reality check" that many dot-com companies are only recently confronting. If Jeff is forced into the ranks of the unemployed for an extensive period, he anguishes over the prospect that bankruptcy may be his most realistic option.

When the "Magic of Plastic" Expires:
Bankruptcy in the Age of Financial Ignorance

Unlike Jeff, Cris has not been so fortunate in evading the dangerous financial shoals of consumer bankruptcy. This situation is especially surprising since her parents are both medical professionals with a combined household income of over $100,000. At the University of Maryland, Cris enjoyed the freedom of college life (with its promotion of a consumer lifestyle) which contrasted sharply with the harsh discipline of living at home. At the time, Cris' parents were oblivious to her new college lifestyle since she was limited to her meager savings from high school. Unbeknownst to them, however, the credit card industry was aggressively expanding into the previously ignored market of "starving students" in the late 1980s. For her father, it was ludicrous to think that major banks would give essentially unsecured loans to unemployed teenagers whom lacked experience in managing their economic affairs or discipline in controlling their consumption. Ironically, he was naive when it came to student finances and bank loan policies. Indeed, banks were eager to make high interest loans to students and credit cards became their financial "vehicle" of choice. Ultimately, credit cards became the personal junk bonds of Generation X.

Cris' initial encounter with "plastic money" began early in the fall of 1989--her first semester of college. Citibank Visa advertisements "were plastered all
over the university" and she thought that there was nothing to lose in submitting an application. Besides, Cris was curious about the "power of plastic" since her parents would not permit her to use a credit card in high school and she did not want to provoke an argument by asking now. Furthermore, all of her friends were receiving financial assistance for college from their parents and thus they had considerably more discretionary resources for "play." Emboldened by the prospect of financial independence, Cris eagerly filled-out the form which did not require the consent of her parents--only a copy of her student ID. At the time, Cris was 18 years old and working part-time at a telephone answering service for about $5.00 per hour. To her surprise, Citibank granted a $500 line of credit, which she immediately used to pay a large library fine and "buy a bunch of clothes at the mall that I couldn't otherwise afford." More importantly, Citibank's decision had a much more profound impact on Cris than the monetary value of its loan because, "It made me feel emotionally and financially mature... [The credit card] helped me become independent [in my relations] with my family and my friends... It made me realize that I deserved to be responsible. That I should not have to beg my stepfather for money or call my grandfather for [financial] help."

Cris' new social and economic empowerment transformed her attitudes toward consumption and debt. No longer forced to "earn" the ability to consume through work related savings ("cognitive connect"), Visa also "liberated" her from the social control of her parents. At first, Cris limited her charges to school expenses and personal items. By the end of the academic year, Cris was routinely using her credit card for mall excursions, restaurant meals, bar tabs, concert and professional sports tickets, and weekend trips to the beach. These activities underscored Cris' newfound "freedom" and were reflected in her rising credit card debts. Indeed, the "power" of Cris' first credit card convinced her to get a second by the end of the fall semester and two or three more in the spring. During this period, Cris learned the flip side of the "power of plastic:" the need to refuel its financial engine with monthly infusions of cash. By the second semester, Cris' top priority was maintaining her lifestyle and she began working full-time at the answering service company.

Not surprisingly, Cris' grades plummeted. For the first time in her life, she received a 'D' and an 'F' which resulted in academic probation from the university. As conflicts with Karl intensified over her social activities, Cris moved into an apartment with some of her college girlfriends. These additional financial
pressures reinforced Cris' dependence on her credit cards. As her most
dependent Asset," Cris saw them as both her personal Asavior" and Abest
friend." When she needed economic help, they were always there for her. And,
they did not ask questions about why she needed the money or moralize about
her spending patterns. The only problem is that they are Ahigh maintenance"
friends with a small financial price to pay for their invaluable assistance. At least
that was what Cris thought at the time.

Cris enjoyed a largely carefree summer and, to reduce her expenses, she
enrolled in a local community college for the fall semester. Already over $3,000
in debt and earning only $5.00 per hour, Cris was deluged with "Pre-approved"
credit card offers. She attributes her desirability to the credit card industry by her
prompt remittance of minimum monthly payments. During this period, Cris began
to view her credit cards differently. "After spending my paycheck, I used my
credit cards like savings... I used them for everything... books, tuition, gas, food,
hotel rooms at the beach... whether for school, emergencies or simply to enjoy
an evening with friends." This intermingling of credit and earnings was reinforced
by unexpected situations such as car repairs and medical emergencies. Afterall,
she had to get her car fixed in order to drive to work and her health deserved
immediate attention or she could not perform her job.

During this period, Cris began to engage in more creative and costly credit
card practices that would foreshadow her eventual debt crisis. First, she began
to regularly use her credit cards to generate additional cash flow. This strategy
usually entailed charging all of her friends' meals at a restaurant and then
collecting their money afterwards. Second, she began to routinely take cash
advances from her credit cards "when I realized that I could." Initially, Cris would
use cash advance checks to pay bills like rent, utilities, or car loan. As she got
further into debt, however, Cris learned a sophisticated version of the "credit card
shuffle." She would take cash advances at the end of the month and then
deposit the money into her checking account so that she could send the
minimum payments to the credit card companies. According to Cris, "it got to the
point where I had written down all of the PIN numbers of my credit cards and, at
the same ATM, I would take cash advances and then deposit the money directly
into my [checking] account." Significantly, this financial management "system"
was encouraged by her credit card companies whom profit from high interest
rates, cash advance fees, and over limit penalties, "Every time I began to bump
against my limit, the banks would raise them. [Because of this practice] it did not
became a crisis early when I could have realized the seriousness of my situation.” At the same time, marketing inducements such as 10% off with a new retail credit card such as Hechts or a free Orioles bag with an application for an MBNA MasterCard were “too easy” to pass up.

Over the next two years, Cris’ credit card debt jumped from about $5,000 to over $15,000. Cris marveled as she reflected on how she was unaware of the amount of debt that had accumulated on her 8 or 9 credit cards: “after being relatively stable for a couple of years it just [tripled] overnight.” She moved back with her parents to reduce expenses which now included payments on a stereo, VCR, and TV. However, the recurrent conflicts with her stepfather ensured that this was only a short-term move. The following year, she moved in with her boyfriend. Although Cris had received a moderate raise to $6.50 per hour and earned as much overtime as possible, the economic burden of rent and utilities plus her car payment led to a sobering realization: her basic expenses exceeded her income. At the time, Cris had been content to send minimum payments on her credit cards because she had convinced herself that she would soon get Aa good job and pay them all off.” Instead, at 21 years old, Cris was forced to accept the reality that she would have to work full-time and remain a part-time student while attempting to reduce her credit card debts. A $5000 debt consolidation loan offered only temporary relief.

As Cris slipped closer to her financial abyss, she was astounded by a debt counseling announcement that she saw on television. It explained that merely sending minimum payments would require over 30 years to pay off existing credit card balances. “With no end in sight,” Cris’ attitude toward her credit cards changed dramatically. From being her “best friend,” they became her worst enemy—“I hated them.” Dependent on the credit card shuffle to “simply get by,” Cris sought help at a local debt counseling agency. What she received was a “shock... I thought that they could help anyone... instead, they told me that they could not help me at all... that I should declare bankruptcy. I was mad, they implied that I was beyond help... I had nowhere else to go... I could not believe that this was happening to me.” Cris did not want to abandon her debts but, on the other hand, she could not find anyone whom was interested in helping her “put my life back together” unless she “started over again.” In fact, the first bankruptcy lawyer that she consulted recommended that she “max-out” all of her credit cards before filing for bankruptcy. Cris was appalled by his suggestion. Afterall, she emphasized, “I am not irresponsible. I was not looking for an easy
way out... He made me feel bad about myself and the whole bankruptcy process... I was doing it because there was no other option.” Cris declined his offer to represent her during the bankruptcy proceedings.

In December 1994, at the age of 23, Cris’ bankruptcy petition was approved. With the guidance of her attorney, which cost $695, the court discharged a total of $22,522 from 13 credit cards and a $5,000 consumer loan; she “reaffirmed” two credit cards and continued payments on her car loan. According to Cris, “I felt awful about abandoning my debt. After all, I tried to renegotiate through Debt Counselors but no one was interested in helping me renegotiate my debts.” Indeed, the striking feature of Cris’ story is her emphasis on individual responsibility while at the same time criticizing credit card companies for aggressively marketing excessive lines of credit to naive and emotionally vulnerable students, Al admit that I charged way too much... my debts were all my fault... [However] they should NEVER have given me all those credit cards at my age [under 22]... There was just too little effort to get them. The banks make it TOO EASY to get into debt.”

Fortunately for Cris, bankruptcy was a prudent decision because it enabled her “to put the pieces of my life back together.” In fact, she was able to complete her junior college studies as a full-time student and is now enrolled to a four-year university. In May 2001, almost twelve years after receiving her first credit card, Cris is scheduled to graduate with a BA in accounting. For those whom contend that the consequences of bankruptcy are too lenient, Cris’ experience is instructive. Although she agrees that the social stigma is diminishing, Cris emotionally responds that,

“you don’t know how bad [bankruptcy] is. They said [my bad credit] would last only 7 years but it will take ten years before the bankruptcy is erased from my credit report... I can’t get a real credit card, AT&T just rejected me for their card, and forget about a house mortgage... I’ve talked to people who are thinking about declaring bankruptcy for only $4,000-$5,000 of debts. As little as they knew about credit cards, they know even less about bankruptcy... Kids need to understand the future repercussions of accumulating multiple credit cards. Many young people see only the immediate benefits/gratification. They are so [financially] ignorant. It is so sad.”
THE ECONOMY, Stupid!

Shuffling and Surfing in the Turbulent Seas of Economic Uncertainty

Even students who eventually obtain steady, well-paying jobs after college graduation, the financial albatross of credit card debt may be insurmountable—especially those entering a less favorable job market. This increasingly common trend of employment disruption, which has been “regularized” through the enormous growth of temporary or “contingent” workers, has fundamentally changed the nature of employee loyalty and, in the process, created often unmanageable personal debt burdens. For a generation that has never witnessed an economic downturn, the perceived lack of an imperative to accumulate financial reserves (savings, lines of credit) suggests a potential social crisis when they must endure extended periods of un- and underemployment. The prospect of a potential recession in 2001, which belies the aggressive marketing of credit cards to college students, underscores the instructive experiences of “Daniel” whose graduation from college in the early 1990s resulted in unfulfilled expectations, disappointing job prospects, and insurmountable consumer debt obligations.

At the beginning of the employment life-cycle, “Daniel” illustrates how the impact of credit card debt acquired in college can be obscured by the middle class squeeze after graduation. That is, recent graduates tend to assume greater levels of consumer debt during their job search. This includes employment related expenses (resumes, business clothing, transportation) as well as personal living expenses (rent, food, car, entertainment). Significantly, recent graduates that are financing their lifestyle with credit cards are neither classified as students or new workers. It is during this transitional period that personal credit card debt often grows at a rapid rate—especially during a “tight” labor market.

Daniel’s unexpected odyssey into the financial depths of credit card debt began innocuously when he was offered a Citibank Visa application by a corporate representative while walking through the student center. A sophomore at a Howard University, he was struggling to pay for his college expenses and enjoy a modest social life in Washington, D.C. Daniel’s middle-class, professional family is from Kenya and his goal was to become an accountant. With limited funds, Daniel was eager to receive “free money” but was skeptical that a major bank would give him a credit card since he was several years away from earning a middle class salary. From Daniel’s perspective, an
undergraduate college student is a major loan risk.

In 1988, however, Citibank was aggressively marketing credit cards to college students like Daniel whom it viewed as potentially lucrative customers for high interest, consumer loans. Citibank was so desperate to expand its credit card portfolio that it abandoned the industry policy of requiring parental co-signatures for unemployed students. Banks realized that they could "persuade" parents to pay for their children's credit card debts with threats of lawsuits and today "inform" parents of the disastrous consequences to their children's credit reports if their credit card debts are not repaid. By only requiring a copy of his university ID, Daniel quickly completed the application and received a $600 line of credit. He immediately used all of his "new money" for school books, food, and an occasional cash advance. At the time, Daniel thought that his "plastic cash" had been exhausted and he would have to survive on his previous "starving student" budget. Instead, to Daniel's surprise, he began receiving new credit cards in the mail—a peculiar reward for maxing-out his Citibank Visa. Over the next seven months, Daniel received Citibank MasterCard and Visa "Gold Cards" with rapidly rising credit limits as well as several retail credit cards. For Daniel, it was amazing that all of these credit card applications were "pre-approved" before he had applied for his first job. Apparently, he thought, this reflected the banks' confidence in his future earning ability.

By the time Daniel finished his B.A. degree in 1990, he had over five thousand dollars in credit card debt. Although he does not remember most of these purchases, Daniel is grateful that his credit cards enabled him to enjoy a middle class lifestyle before he had a well-paying job. In fact, this consumer debt did not seriously concern Daniel because he was convinced that he would earn a good salary soon after completing his studies. This is why he justified the frequent payment of his consumer debts through cash advances and balance transfers from bank cards—the credit card "shuffle." Over the next two years, Daniel used students loans and credit cards to finance his Masters' degree in accounting.

Upon graduating in fall 1991, Daniel had amassed over $15,000 in credit card debt. As a Certified Public Accountant (CPA), Daniel expected that he would be able to quickly payoff these high interest consumer debts. To his shock, however, the 1989 recession severely affected his employment prospects. Daniel spent the summer interviewing for jobs as an accountant and paid his living expenses with his credit cards. Although no longer a student but still
looking for his first job, Daniel's credit card debts were approaching $20,000 when he took a "temporary" position as a security guard. Daniel was stunned that his first annual salary of approximately $15,000 was less than his total credit card debt.

Even when a "good job" did not materialize, Daniel did not perceive his credit card debt as a serious problem. He was certain that it was simply a matter of time before he became financially solvent. Undeterred by his escalating consumer debt, Daniel's full-time job and extensive credit history enabled him to obtain even more credit and "buy whatever I wanted. In stores, I would apply for instant credit cards and be set to buy in a few minutes." Unfortunately for Daniel, his temporary position lasted nearly two years. As he explains, "During this time, I was basically surviving off credit cards. They paid my rents, entertainment, gas, and shopping..." In 1993, Daniel finally joined a Washington, D.C. firm as an accountant. As a CPA, his initial salary was over $50,000 and he believed that he could begin reducing his over $25,000 in credit card debt. However, Daniel's newfound professional success persuaded him to ignore his original goal of escaping credit dependence and he quickly accepted "pre-approved" offers for Chevy Chase Gold Visa, American Express, and Diner's Club cards. Emboldened by his new buying power, Daniel bought a condominium and furnished it with his credit cards. He rationalized the condominium as a good investment and, after all, the mortgage unlike his credit card debts is tax deductible. After a couple of salary increases, Daniel's rising standard of living soon included a new car and of course auto loan payments in 1994. Now Daniel felt like his hard work was being rewarded as a tax paying member of the American middle class.

By 1996, even with an annual salary of nearly $60,000, Daniel's credit card debts exceeded $30,000--and rising. According to Daniel, "My paycheck could only pay my condo, car, and credit cards. Then I had to depend on the credit cards for gas, groceries or anything else I wanted to buy. No savings. [Over] a few months, I would make thousands of dollars in credit card payment and the debts were not going anywhere." Efforts to replace his high interest credit card debts with lower interest debt consolidation loans were time consuming and ultimately fruitless. Banks were reluctant to approve new consumer loans with such a high debt to income ratio. Reluctantly, Daniel believed that he had no other option but to file for personal bankruptcy. In early 1997, his Chapter 7 filing was approved by the D.C. bankruptcy court and all of
his credit card debts were discharged.

Today, Daniel is recovering from the personal pain of bankruptcy and thankful for the opportunity to rebuild his financial future. "Without it [bankruptcy], I would still be increasing my credit card debt and they [banks] would still be increasing my credit limits... instead of relying on cash [advances] from my credit cards I can now get cash from my savings account." Daniel still uses "plastic" but only for convenience and "prestige." That is, to minimize suspicions about his past financial problems; he has a debit card and a 'secured' Visa credit card. The credit line on his collateralized secured card has been raised twice and Daniel hopes that he will be approved soon for a retail credit card following two previous rejections. Although the days of "easy credit" are temporarily over, Daniel knows that it is only a matter of time before he is able to rejoin the ranks of the middle class with the full privileges of a Gold credit card. You know office politics." In sum, a review of Daniel's bankruptcy petition portrays a well-paid professional who appears to have been unable to control his consumption desires. In reality, however, about two-thirds of his credit card debt was accumulated during college and his initial job search. Hence, the roots of Daniel's financial insolvency were sown by his credit dependency as a university student and the unforeseen difficulty in obtaining a job in the aftermath of the 1989 recession.

The Arrival of the "Magic of Plastic" in the Golden Years:
Patching the Social Safety-Net of Elderly Survival

Among America's senior citizens, the credit card industry has encountered the most formidable challenge to its promotion of easy credit. The debt abhorrent behavior of the parents and grandparents of America's Baby Boomers was profoundly shaped by their personal experiences during the Great Depression. Today, however, many seniors are confronting formidable economic realities that are challenging their longstanding attitudes toward "easy" consumer credit. The fact that the credit card industry began aggressively marketing its products to senior citizens in the late 1980s, including lucrative agreements with the American Association of Retired Persons (AARP), illuminates the intense resistance of these generations to the social shame of personal debt. Not surprisingly, according to the 1995 and 1998 Survey of Consumer Finances, older Americans are least likely to finance debt on their credit cards. In answering 'yes' to the question, "Do You Almost Always Pay Off Your Credit
Card Balance,” the response by of those 65-74 years old rose from 72.0 to 74.0 percent and even higher for those 75 and older—from 85.8 to 86.3 percent. In comparison, this is nearly twice the proportion of those under 35 years old. See Table 3. And yet, with stagnant retirement incomes and rising rent and medical costs, credit cards increasing are becoming the financial glue of the crumbling social safety-net of America’s senior citizens. This sudden receptivity reflects both industry policies (reluctance to give conventional, low-interest loans to retirees and aggressive credit card marketing campaigns) as well as the growing desperation and social isolation of the elderly—especially widows. This trend is illustrated by 78 year old Jeannie May Lawson.

Jeannie May has worked hard, all of her life, to raise three children and generally to “just get by.” Divorced for over 40 years, she survives on a social security check of $648 per month and part-time work in the “old folks home” where she lives in a small town in upstate Illinois; the rent for her subsidized, one-bedroom apartment is $196 per month. Unlike many of her generational peers, Lawson lacks an accumulated “nest egg” for retirement. Her low-income, blue-collar jobs did not offer a private pension and divorce deprived her of the opportunity for greater household savings. More importantly, the modest home that she and her husband purchased with a VA loan after The War, was sold years ago. This seemingly uneventful decision has had a major, unforeseen impact on Lawson's “Golden Years.” That is, home equity is the most important source of personal wealth for retirement, especially among working class families. Today, nearly four out of five (79.1%) seniors over 64 years old are home owners and only 8 percent are still paying on their first mortgages while 28 percent have various home equity and second mortgages. Not surprisingly, home equity accounts for most assets of older adults.

Jeannie May symbolizes the plight of America’s working class elderly. Born in 1915, the United States was still a largely rural society—especially in the Midwest—when she was growing up in northern Illinois. The youngest of five children, her parents worked the small family farm that produced mostly corn and some vegetables for the market as well as pigs, cows, and chickens primarily for household consumption. Money was scarce as the family, second-generation immigrants from England, struggled to make ends meet in a local farm economy where credit was informally negotiated and debts were commonly satisfied through bartered exchanges. For example, the local dentist was frequently paid for his services “n-kind” with eggs, butter, and freshly dressed chickens while the
school teacher received food and housing which was supplemented with a small monetary salary. This practice of non-monetary exchange was especially common during the 1930s when Lawson’s most vivid memories concerning credit and debt were molded. “Money was hard to come by in those days... many people were losing their farms and even their homes... it was tough times.”

Jeannie May’s rural life experiences, Calvinist religious upbringing, and recollections of the Great Depression profoundly shaped her attitudes toward personal debt. On the one hand, the economic rhythms of the seasonal farm economy required rural families to rely on credit for agricultural and household supplies during the planting and fallow seasons and then repay their debts after harvesting the corn or selling some livestock in the cash economy. Hence, even among yeoman farmers, credit and debt were “natural” features of their modest lifestyle. On the other hand, the local Protestant churches emphasized the Calvinist values of hard work and frugality as evidence of a virtuous life. This emphasis on savings as a “sign” of potential spiritual salvation contrasts sharply with the negative views toward leisure activities and personal consumption. Lawson remembers sermons in the little white church that chastised “idle hands” and indolent “material desires” as moral sins that would lead to disastrous personal debt. Together with the painful experiences of the Great Depression, when friends and family members “lost everything to the banks,” Lawson entered her “golden years” with very conservative attitudes toward credit and debt.

At 78 years old, Jeannie May still enjoys an active lifestyle that belies her age. Unlike her affluent brother, John, she was unable to translate the generational advantages of rising wages, inexpensive housing, and low educational costs into economic security in retirement. This is partially due to Jeannie May’s divorce and inability to re-marry which forced her to assume the economic responsibility of raising her three children on a single income. Although national poverty rates among older adults at least 65 years old have been falling over the last two decades, from 15.7 percent in 1980 to 10.8 percent in 1996, older women are nearly twice as likely as older men to live in poverty. Also, African American and Latino seniors are nearly three time as likely as Whites to live in poverty; Asian and Pacific Islander rates are nearly the same as Whites (9.7 versus 9.4%).

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For Lawson, her fragile financial circumstances mean that she can not enjoy a leisurely life in her final years; she would prefer to catch up on her 'patchin' [a quilt] or knittin' an Afghan]" for a newborn nephew or niece. Instead, when her health permits (she has diabetes and high blood pressure), Jeannie May works 15 to 30 hours per week in the A[retirement] home's" kitchen as well as housework and errands for "neighbors" who are usually several years younger. Lawson's experience, of course, is not unusual. The U.S. Census Bureau reports that 8.6 percent of women and 17.1 percent of men over 64 years old are still "officially" employed in 1997, with projected increases in 2006 to 8.7 percent for senior women and 17.8 percent for senior men. Significantly, this rate for men has declined from 19.0 percent in 1980 whereas it has risen from 8.1 percent for women.15 Although Lawson occasionally receives small financial gifts from a son in Seattle, her older brother is the only source of economic assistance that she can depend on in case of an emergency. That is, until the day that she received that miraculous piece of plastic in the mail--her secret financial savior.

Jeannie May does not recall the first VISA solicitation that arrived in late 1987. What she does remember is her excitement over the financial "freedom" that it offered. Afterall, as a struggling single mother, Lawson was always grateful for the higher standard of living that installment credit had provided for her and the children in the 1940s and 1950s. The VA home mortgage loan, used car loans from finance companies, corporate loans for appliances and furniture, store credit from local merchants for clothing, and a charge card for gasoline. Lawson confides that she rarely paid off the balance of her credit accounts at the end of the month and was often late with her payments. Although she accepts most of the responsibility as a poor "budget keeper," she laments that her ex-husband's irregular child support increased her dependence on consumer credit by "stretching" her meager earnings.

Unlike her past experience with proprietary credit cards (Sears, Montgomery Ward), the new "universal" VISA card offered her the "magic" of purchasing items nearly anywhere she wanted and whenever she wanted them: local merchants, mail order, and even over the telephone. More importantly, it enabled Lawson to the avoid the scrutiny of her financially secure brother (a successful dentist) and his condescending wife who frequently criticized Jeannie's lifestyle when "helping" with her financial crises. Hence, by avoiding such embarrassing financial assistance, Jeannie May did not have to confront
the Calvinist guilt that would eventually erupt from her escalating mountain of consumer debt. This attitudinal denial was reinforced by the marketing strategies of the credit card industry. As long as she "paid her minimums [monthly credit card payments]," Jeannie May convinced herself that she was satisfying her financial obligations and thus adhering to her generation's moral code of conduct.

Unaware of the technological advances in mass marketing, Lawson was flattered by the personalized "invitations" for bank cards that arrived in her mailbox. Jeannie's limited education (she did not complete high school), low self-esteem (modest family background), meager income as a divorced, blue-collar worker ("scarred" credit history), and respect of authority figures (bankers), made her especially susceptible to the marketing ploys that affirmed her self-worth as a "valued" client. Even after violating her own Calvinist values and life experiences during the Great Depression, by consuming more than she could afford, Jeannie willing accepted the banks' explanation that she was credit worthy and that she "deserved" to be "rewarded" with a higher line of credit. After all, she did what she was told, at least for the first few years: promptly remit the minimum payment at the end of each month. As Lawson recounts,

"I never really looked at the credit card bills much. What was important [to me] was what I had to pay at the end of the month...
I didn't really keep track of how much I owed. I paid 'em what they wanted [minimum payment]. They were happy and I was happy."

What is striking and especially disturbing about Jeannie May's experience is the ease of manipulating her to assume debt levels that she was incapable of financing much less eventually able to pay-off. Indeed, the predatory marketing strategies of the credit card companies are very effective in exploiting the low self-esteem and falling standard of living of America's senior citizens. As a divorcee who never remarried, for example, Jeannie May's material lifestyle had plunged below that of her brother and even her children—especially after her retirement. Although she accepted the Calvinist ethos of hard work and frugality, Lawson yearned for some of the indulgences that members of the middle class take for granted: vacation trips, new cars, household furniture, restaurant outings, gift-giving, and even chocolate candies. With few friends (most deceased or in nursing homes) and a disconnected extended family (children in Seattle, Milwaukee, New York), she began coping with her loneliness by embracing material rewards during her leisure time. In the process, Jeannie May sought to emulate the consumption privileges of many middle-class wives (such as her
sister-in-law), whom balanced their husbands' economic success as "producers" by being the primary household "consumers." It was through the magic of Jeannie May's piece(s) of plastic that she was able to finally enjoy a comfortable life that previously had been withheld from her.

For Lawson and millions of elderly citizens, credit cards are serving increasingly important purposes during the current era of fragmented families and an increasingly fractured social-welfare system. Indeed, Jeannie May did not use her credit cards frivolously by middle class standards, at least at the beginning. The car needed repairs and new tires, her automobile insurance premiums were raised, her diabetes and high blood pressure medications were more costly, she replaced her reading glasses, and finally bought a new winter coat. Lawson's newfound purchasing power also unleashed the ability to satisfy other "wants" that she felt had been unfairly denied. This led to such purchases as a sofa and dining room table for her apartment, a set of pots and pans for the kitchen, new clothes, knitting and sewing materials/supplies, restaurant dinners, and small gifts for family members during the holiday season.

Although supermarkets did not initially accept credit cards, she charged groceries and household supplies at drug stores and even mail-order steaks (delivered by dry ice) from Nebraska. Later, Lawson began making purchases over the telephone via the Home Shopping Network. Jeannie May described with irrepressible glee her anticipation of the UPS truck as it made its appointed deliveries of her eagerly awaited "surprises." For Lawson, the magic of plastic offered the opportunity to enjoy the consumer lifestyle promoted by mass advertising yet denied by Social Security.

By the time Jeannie had maxed out her first credit card in late 1988, about $3,000 in less than a year, she truly believed the banks' form letters that extolled her responsible credit history. In fact, she began to accept the "pre-approved" credit card solicitations that arrived in her mailbox with the now familiar logos of VISA and MASTERCARD, as these were not just any banks that were Acardin' on her." Esteemed financial institutions such as Citibank, First Chicago, Continental Bank, and Chase Manhattan were actually vying for her business. According to Lawson, AI figured if the banks keep on sending 'em to me, then I figured I'd keep on usin' em... [Afterall] they're in the business of lending money. I trusted 'em. I thought they knew what they were doing." And they did. Instead of eliciting a financial warning after reaching her credit card limit, Jeannie's "mature" account status triggered a second and then a third card in 1989 followed by a
fourth credit card in early 1990. By 1991, Lawson had a huge credit card debt and was having difficulty "making all my [minimum] payments."

Jeannie May really did not know how much debt she had accumulated (over $12,000) or even how bad her financial situation was at the time. What she did admit was that the infirmities of old age were finally catching up to her. Al never thought of myself as one of the old folks [in the retirement home]... I could get around on my own and even helped them with their own chores. With my car and job, my life really hadn't changed much [in retirement]... I just didn't have to work as hard [at a full-time job]." The reality, however, was that she could not live adequately on her Social Security income--even with participation in public programs for the elderly such as subsidized housing and medical care. As a result, it became increasingly difficult to budget her modest monthly income due to rising health-related expenses and an uncertain level of supplementary earnings. On the one hand, her high blood pressure and diabetes required more costly medicines--even with Medicaid assistance--which increased her need to work. On the other, her poor health meant that she could not work regularly at 'the home" and thus could not rely on extra earnings to supplement her meager Social Security check. Although Jeannie's children remain in contact with her, they provide little financial help; occasionally they send money, but it amounts to only a "couple a hundred dollars a year." Hence, with a limited family support system and America's shrinking social safety-net, Lawson's credit cards became her most reliable form of assistance against the unforeseen and debilitating exigencies of the aging process.

It was primarily for economic reasons that Jeannie May ignored her doctor's advice to 'slow down" and stubbornly continued to work part-time. For Lawson, employment was crucial to maintaining her newfound independence. That is, work enabled her to shield the escalating credit card debt from outside scrutiny while continuing to enjoy her relatively comfortable lifestyle. Unfortunately, the combination of financial duress, failing health, and a long life of arduous manual labor finally culminated in a mild stroke at the end of 1991. Already stretched to her financial limit, the temporary end of her part-time job forced Jeannie May to finally confront the reality that she could no longer make the minimum payments on her credit cards. While convalescing at home, moreover, the tone of her credit card statements shifted radically--from friendly to concerned and then to threatening. It was at this time that Lawson desperately sought help from the source of last resort: her brother. And, she knew that this
decision would require a humiliating explanation as well as the end of her credit reliant lifestyle. For Jeannie, her Calvinist guilt and personal shame would soon be supplanted with the punishment of her previously spartan lifestyle.

Lawson’s brother, John, remembers the phone call that led to his dismay over the predicament of his sibling. John lived in a posh, northside suburb of Chicago and immediately made the three-hour drive to Jeannie’s apartment. He had always been protective of his youngest sister and was surprised by her agitation over what he assumed was a relatively minor problem. Afterall, she was a frugal person and there were no obvious warning signals to indicate a sudden change in her lifestyle. In fact, John was unaware that Jeannie May had any bank cards. Upon reviewing her credit card charges, he found not one but four separate accounts. Furthermore, John was able to reconstruct her consumption patterns. What were normal and modest purchases for him were often unnecessary or too costly for Jeannie. Even so, John was impressed by the general pattern of essential charges: car repairs, gasoline, medicine, groceries, clothes, insurance, and other necessary household items.

After compiling all of Lawson’s outstanding credit card bills, John was shocked by what they revealed. In less than five years, Jeannie May had amassed over $12,000 in consumer debt. Fear and shame had led her to ignore the cumulative outstanding balance while the marketing campaigns of the credit card industry continued to persuade Lawson that she was a “good” customer. For Jeannie May, her elevation to a middle class standard of living proved to be a temporary respite. After paying the rent, Lawson’s Social Security check barely covered the minimum payments of her credit card accounts. Clearly, if she ever was to regain economic self-sufficiency, Jeannie May had to escape from this financial albatross and return to her more modest lifestyle. With the help of John’s lawyer, Jeannie May filed for personal bankruptcy and is no longer responsible for her past credit card debts. In addition, John purchased a small annuity that supplements Lawson’s retirement income (about $200/month) for the rest of her life. Although a compassionate and foresightful act, John’s recent death of a heart attack at age 87 means that Jeannie May has lost her only dependable source of economic assistance. For her and increasing numbers of the impoverished elderly, the ability to secure a bank credit card is the most realistic strategy for obtaining a modicum of financial security in their later years. And, this is not an unlikely prospect in view of the intensifying competition by credit card companies over new accounts of revolvers.
CONSUMER DEBT AND U.S. BANKRUPTCY REFORM

Individual Versus Corporate Responsibility

In conclusion, the economic expansion of the last decade was not as strong as measured by traditional economic indicators that emphasize growth. This is due to bank lending policies that promoted inflated consumer expectations through easy access to high cost consumer loans whose interest rates far exceed the pace of household income growth. Similarly, these economic indicators do not necessarily imply a deep consumer-led recession if the leading financial services conglomerates like Citigroup, Bank of America, and J.P. Morgan Chase do not overreact to the abrupt decline in national economic growth. The concern is that these financial services corporations may "tighten" their lending policies for small businesses (primary generator of U.S. jobs) and heavily indebted families that previously were considered acceptable credit risks. This may not only limit future levels of business investment and household consumption—which would exacerbate the downward spiral in macro-economic growth—but it may also force tens of thousands of financially distressed households into personal bankruptcy due to unforeseen events. As the most comprehensive analysis of consumer bankruptcy in the early 1990s shows, most filings are attributed to unforeseen events (job loss, health/medical expenses, divorce) rather than excessive consumer spending patterns.

Surprisingly, with heightened concern over the lack of financial awareness of the average American household, the consumer financial services industry has responded by reducing its “fair share” contributions to nonprofit consumer credit counseling organizations at the same time that the demand for these services is rapidly escalating. This has resulted in a consumer financial education provision in both versions of the bankruptcy bill. Like replacing small business loans with high interest credit cards, the question is whether the financial services industry is truly committed to reducing the national rate of consumer bankruptcies by supporting institutionally responsible policies that balance the often unrealistic consumption desires of American households. Instead, it appears that the banking industry has effectively mobilized political support against government regulation of “sticky” (slow to fall) credit card interest rates

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while embracing government intervention in the form of federalized debt collectors for unsecured consumer loans. In its current incarnation, the bankruptcy legislation demonstrates that the bankers can have their cake AND eat it, too.

With the renewed efforts of the financial services industry to enact more stringent personal bankruptcy laws, credit card lobbyists are the most influential supporters of the Consumer Bankruptcy Reform Act,\(^\text{13}\) bankers could exacerbate a national and even a global recession by forcing financially insolvent households to continue paying off a portion of their consumer debt—years after filing for personal bankruptcy. Indeed, this is the most controversial provision of the Congressional legislation: restrict the use of Chapter 7 (discharge of unsecured liabilities). Of course, what this really means is that the federal government will become the "muscle" for reducing the risk of the credit card industry's current policy of offering revolving credit to increasingly risky teenagers and moderate income households.

The industry's call for greater individual responsibility belies its disregard for its own traditional underwriting criteria. For example, grandparents with stellar past job histories are often rejected for credit cards while their grandchildren (who often have not had a full-time job) are inundated with solicitations during and even before entering college. Similarly, recent college students may be rejected for credit cards after graduation when their entry-level salaries suggest an inability to service higher levels of debts. Indeed, a striking finding of my 1999 study of college student credit card debt is that recent graduates of the late 1980s and early 1990s were more likely to assume most of their credit card debt while seeking gainful employment than while enrolled in college.\(^\text{14}\) Today, college students routinely graduate with credit card debts of from $5,000 to $15,000 plus student loans before they enter the job market. With the specter of a tight job market in the near future and the continued corporate promotion of inflated consumer expectations, it can be expected that the

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\(^\text{13}\) MBNA was the largest corporate contributor to George W. Bush's Presidential campaign; it also was the major financial sponsor of President Bush's Inauguration festivities. Citigroup, with its Vice-President Robert E. Rubin (ex-Secretary of Treasury under Clinton), was the second largest corporate contributor to Albert Gore's Presidential campaign.

bankruptcy rate of recent college graduates will continue to soar with potentially disastrous long-term consequences. Indeed, the fastest growing group of bankruptcy filers last year were individuals 25 years old or younger.

Clearly, the recent assumption of tremendous levels of consumer debt—provided by financial services institutions that have routinely ignored their traditional underwriting criteria—requires accountability and financial responsibility from both sides: borrowers and lenders. Indeed, lending policies that routinely require the poor and heavily indebted to subsidize the low and even free cost of credit card loans to the affluent through escalating interest rates and penalty fees, does not reflect an appropriate policy of shared individual and institutional responsibility. In fact, increasing the financial obligations of filers to their creditors after bankruptcy would encourage banks to continue extending “easy” credit to those least able to assume their financial responsibilities during a period of economic uncertainty and distress. Banks and other financial services institutions should share the pain as well as the gain associated with the liberal extension high cost, consumer credit. Otherwise, consumer lending policies of financial services institutions may continue to discourage the promulgation of prudent and responsible underwriting policies.

Although the Consumer Bankruptcy Reform Act was the first major bill passed by the U.S. House and Senate during the initial months of the Bush Administration, it does not appear that it will be signed into law in 2001. With the onset of the recession, followed by the September 11th terrorist bombings, U.S. Congressional enthusiasm for the bill has swiftly dissipated. Efforts to make it more equitable (Senate version includes $175,000 Homestead Exemption) and compassionate for the most disadvantaged filers (“means testing” for Chapter 7) are now viewed as modest concessions for a ruthless banking lobby whose selfish interests could push the American economy even deeper into a recession. And, with a generation graduating into debt without any possibility of discharging escalating student loans, U.S. policy-makers face a formidable challenge in stimulating the economy as well as the international commercial order. Like an aging athlete coping with diminished power without steroids, the U.S. economy will have to adjust to less consumer credit and declining wages. In the short-term, consumer demand will be created by discharging debts and extending new lines of credit. After these economic conditions begin improving, corporate lobbyists will again express concerns over individual irresponsibility and prepare to shape the debate of the next round of Consumer Bankruptcy Reform.