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The Unknown Terror: Credit Card Debt Among The American Middle Class

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America has been a major power and key player in the global economy since the Second World War. After the Second World War, there was a shift toward globalism. America reaped the full benefits of war production, creating a prosperous and powerful society, especially with the growing middle class. This middle class would be the backbone of America and where it drew its strength. Yet, its weakening and decline has been a tragedy for the United States. As greed and self over country would dominate politics and business for the following decades after the war, the American middle class would find itself increasingly in shambles and reliant on debt.

Debt came in many forms but the form that was the most harmful and damaging for a vulnerable American middle class was credit card debt. By the 1990s, a growing portion of the middle class was in over its head with credit card debt and reliant on debt when times were tough financially. The growth of credit because of credit cards, has coincided with the growth of debt among some within the middle class. Debt has negative impacts and leaves these Americans stuck in debt that they may never be able to get out of. By discussing the growth of credit card use amongst middle class Americans, this paper will show how their reliance on credit cards by the 2000s left many with debts that they may never be able to pay.

Debt is not a new practice for humanity. People throughout the ages would lend things or need to borrow something. People have always needed things they do not have or cannot afford. Indeed, the practice of borrowing and debt is important to our existence. Although borrowing or lending was a common practice for much of history there was no commercial business or major industry or companies behind or doing lending. This was true even in America, where there were always lots of local

economies and trade being practiced. In Louis Hyman's *Debtor Nation*, he explains that in the US before 1917, there were no major loaning commercial or business practices because there was very little profit involved. Interest rates were forced to be low. Loaning was a common practice but it was done without the idea of profit. In 1917, banks were allowed to charge higher than 1-1.5% interest for the first time and this entirely changed the idea of borrowers and lenders[1]. Once banks were allowed to charge higher interest rates and make a profit the practice was taken seriously by banks and commercial ventures. For the first time, loans could be acquired through banks and verified sources. Thus, this was the origin of debt in America.

Debt, like credit, would continue to be greatly impacted by government policy and influence in subsequent decades. In the 1930s, during the Great Depression, Franklin Roosevelt's administration kept interest rates low so that Americans could continue to get loans to fuel their spending. The idea was to drive up spending to try and jolt the economy. The only way this could happen was if Americans would have the funds to be able to keep the spending up. The low interest rates allowed for the possibility of that spending. The spending did not just involve the purchase of small commodities but also necessities, especially houses. Roosevelt's administration passed legislation in the New Deal and controlled banks during the Depression to achieve this feat. The housing market was a huge focus of the New Deal, which helped put many Americans in homes. Organizations like the Public Works Administration and the Home Owners' Loan Corporation were able to provide mortgages and other loans to people looking to buy homes.

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[1] Hyman, Louis. *Debtor Nation: The History of America in Red Ink* (Princeton: Princeton University Press, 2011).

The credit story is a tad different than the history of debt, but still depends on Americans spending and allowing them to do so even more over time. Credit is much younger and has its roots just like debt, connecting people with money to charge interest to make profit. The story of credit is as much about the change of an economic approach/philosophy and the evolution of technology as anything else. Credit could have never exploded into the massive business it is today (especially in the United States) without major technological advances and the evolution of money. David Evans and Richard Schmalensee, in their book *Paying with Plastic*, discuss all of these changes and advancements that helped credit become established in the American mainstream[2]. They explain the precipitating events and advancements that allowed for credit cards to become widely used.

Money is the first piece of the puzzle. Money dates back to antiquity, where it was mainly coins made from real Earth metals such as gold, silver and bronze. This made sense because of metal's rarity, appeal and worth. The great Greek Historian Herodotus credits the Lydians with this achievement, as he states they were the first to use gold coins as currency. This quickly spread through the ancient world becoming a "standard." This is important because a standard is something set with an agreed upon worth; money is a standard. It is the standard currency and its worth is accepted by all so that there can be smoother trade and transaction[3].

But much of what made the middle class depend on debt and credit in the late twentieth century is credit cards. Their expanded use would not have been possible without many advancements in technology. Advancements in the software and

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[2] Evans, David, and Richard Schmalensee. *Paying with Plastic: The Digital Revolution in Buying and Borrowing.* (Cambridge: MIT Press, 1999).
[3] Ibid.

computer sectors made a key difference between credit and credit cards becoming staples for middle-class Americans and their families. Other advancements in areas like the payment of credit cards and card terminals played important roles. The software and computer advancements would be the game changer that would allow for the credit industry to become part of everyday life, especially for middle-class Americans.

The first major evolution of the credit card was the payment card released in the 1950s. The first two cards were the Diners Club payment card, which was released in 1950 and the American Express card that was released in 1958. The Diners Club is credited with being the very first successful charge card, leading to the idea and pursuit of all purpose credit cards. The idea came from Alfred Bloomingdale and Francis McNamra. When they were having lunch, they philosophized that "the idea of offering third-party credit had potential and thought that restaurants in Manhattan, where people were accustomed to using charge accounts, would be a promising beginning."[4] Diners Club cards were given to customers and different restaurants signed up. The practice turned out to be successful and people were using the Diners Club card in New York and around the country. The Diners Club card then expanded to other places in the country and to more businesses such as retail companies and hotels. The Diners Club card caught fire and the idea soon became massive.

Diners Club's first competition came in 1958 when American Express was introduced. By the late 1950s, "many banks recognized that there was a market for a card combining payment and credit features."[5] American Express's success along with Diners Club made it clear that there would be evolution in business and transaction.

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[4] Ibid, 62.
[5] Ibid, 63.

Thus, San Francisco based Bank of America and New York based Chase Manhattan would create the first all-purpose credit cards at the end of the 1950s.

But several problems emerged for the growing industry. For example, something had to be done in order to operate in local communities and across state lines. Laws had not yet been put in place to aid the credit card industry in being able to easily operate across various state lines. In fact, the laws in place deterred and dismantled any bank that would try to effectively operate across state lines. Bank of America was successful because it was in California, the biggest state, where it was already a successful bank, among one of the largest populations in the country.

The industry itself also needed the credit card payment transaction to be more accepted in the consumer payment process. The acceptance would require a credit card terminal and merchants and consumers being able to easily transact with the cards. Evans and Schmalensee refer to four major obstacles that would be required in order for the industry to take off and take hold of the middle-class consumer. One, payment cards helped consumers only when massive amounts of merchants accepted them. If only a few stores accepted cards, consumers would be less confident in using them. Two, “with the population’s increased mobility, payment cards were more useful if they were accepted over wider geographic areas. Such acceptance required a simultaneous nationwide sign-up of merchants and consumers. Few companies had the necessary resources for such a task.”[6] Three, they needed to keep the cards out of the hands of the wrong people or people who struggled to pay their credit card bills on time. Because the banks would just distribute cards, they could get lost quite often or go to the wrong person. Even more importantly, a card could be issued to a person who

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[6] Ibid, 64.

mismanaged their credit. This was before credit reports and thus companies did not have accurate data on people's credit histories. As such, "Payment card companies faced a huge financial exposure, and many incurred correspondingly large losses."[7] Finally, cards were an easy target of fraud.

All of these obstacles would have to be overcome for credit cards to become a staple in American consumerism. All of these obstacles are connected to one major philosophy. The connection is the companies need to create the industry as a need, particularly for the middle class. Creating the payment card and the payment card transaction as a need for both consumers and merchants was the most important step in launching the credit card industry to its heights. Dependency on the card and credit was the true key. It would have to become a norm. Companies did all of these different financial maneuvers, such as creating joint business ventures, allowing Bank of America and others to operate across state lines because the banks had separate branches operating and disturbing their cards in various states. Before banks could only operate in their state or locally to keep competition between banks even. "BankAmerica Service Corporation enabled local banks to issue a card that could be used nationally, provided an arrangement for coordinating settlements of accounts between merchant banks and issuer banks, Bank of America also spread the cost and risk of developing a truly national card."[8] This would pave the way for Interbank, which would later be surpassed by National Bankamericard's Mastercard (along with BankAmericard, would become Visa, and go on to dominate the market and credit card industry.). It would be the

[7] Ibid, 65.
[8] Ibid.

dependency on credit cards for everyday charges, such as gas, that would be the end goal of all of the credit card industry's efforts.

This need was met through technology. Advancements in infrastructure and computer science would allow for the dependency of credit cards to be created. The costs being created by trying to set up this massive new business venture were hefty. Not only was it hard at first getting merchants to sign up but the system in which they would get paid was increasingly difficult until the joint venture system was created. Even then the system was struggling, with a lack of centralized systems and data to help keep consistency throughout the industry. One advancement came in 1970 when "Bank of America spun off its credit card licensing organization to an independent, non-stock membership corporation: National Bank Americard, Inc. (NBI). NBI had 243 charter members, including Bank of America, Bankers Trust and First Chicago, as well as community and regional banks."[9] Once this was done, it created the first ever truly centralized head of operations, where all data and infrastructure was consolidated, with enough resources finally at its disposal. The industry, which was mainly run by one company, was able to create open memberships for Visa and Mastercard. Banks quickly opted in to taking part and quickly began disturbing either Mastercard or visas. This caused a chain reaction because now many merchants quickly signed up to try and be ahead of the curve, if they were not already signed up.

The dependency for the middle class on credit card debt was now starting to take shape. Mastercard and Visa were making huge strides in the business world and were starting to become popular and mainstream, especially for middle class users who could use the card now and pay back later. With many local and nationwide communities

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[9] Ibid, 66.

becoming equipped with credit infrastructure, credit use grew. It grew slowly, but then truly took off in the 1980s. The credit industry made massive changes that were crucial in making credit a dependency of the middle class. Mastercard and Visa would double down and focus on advancements to better entrench their hold on America's dependency of credit. Along with the credit terminals, which made transactions for merchants and consumers easier, computer science would make credit data much more accessible and easier to keep track of. The terminals would record the transactions and the computers would store and sort the data to better help the credit companies.

Computers and computer software were able to overcome the most important obstacles for credit card companies: Organization, transactions, fraud, membership and distribution and access and availability. Overcoming these key obstacles would be the main factors in trapping the American middle class in the debt crisis. Before the advancements in software, credit card companies were unorganized and lacked major processing ability that kept them behind the eight ball when it came to processing data, analysis and storage. After the software breakthrough, companies were able to easily sort data and have an analytic approach to credit availability and distribution.

This all allowed for Americans to accumulate significant credit card debt. Think of this: “The Citibank Visa card is one of the most widely held. The typical customer does not pay an annual fee….. she pays an interest rate–the annual percentage rate (APR)--of 17.9 percent of the remaining balance. If she is tardy in paying her bills, the APR can go up to 21.4 percent. Many other Visa cards offer lower rates than those charged by Citibank.”[10] The Citibank Visa card is an example of how credit cards work and how different distributors of cards vary in their practices by having different interest

[10] Ibid, 27.

rates, promotions, fees and penalties. In this quote from *Paying with Plastic*, the Visa card is being distributed by Citibank (one of the biggest Visa distributors) and shows how Citibank applies its Annual Percentage Rate (APR). This involves tracking multiple variables: A, the person, B, their payments and payment history, and C, their readiness and ability to pay. With all of this information on a person, the creditor can then make "accurate" credit data analysis on an applicant or debtor and determine and evaluate if the APR can be changed and raised.

This is what the credit industry is banking on because this is how they make their money. Would the credit card industry be able to do this without specific computer software for the credit card industry? Absolutely not. In truth, the credit card industry was profitable but in disarray with its systems. How would even a big company be successful in organizing, filing and making real time decisions about all of these factors and moving pieces? It took computer software from the 1990s. The industry would need the exact advancement in computer software that came along. Not only would the data be kept and organization easier but it would allow for easier processing as well. The credit industry would now be able to capitalize on credit cards' widespread use, pay and pay later/monthly when able to pay and convenient transaction ability[11].

Having every card start at around 18 percent interest was only the beginning of these practices and a jumping off point for the credit card industry. People who put a lot of chargers on their cards or people who held a lot of debt on their cards soon became the favorites of credit card companies. The industry made more money on the backs of Americans struggling with debt than they did off of consumers who paid their bills in full each month. More chargers meant a higher likelihood that a person was only going to

[11] Ibid.

make a minimum payment or not be able to make any payments on the monthly credit bill at all. “The typical customer does not pay an annual fee. In fact, if she pays her monthly bill in full, she pays for nothing but the stamp. But if she does not pay her bill in full, she pays an interest rate.”[12] An annual penalty fee will be attached, along with other possible fees while interest also grows on the charges. If one falls behind on their payments their APR (annual percentage rate) could skyrocket.[13] If payment tardiness continues, then the APR will increase to whatever the company sees fit. A quote from *Fragile* sums it up perfectly: “credit card debt endangers the financial health of the middle class.”[14]

Americans were once protected by government-controlled credit and usury regulations and with social security nets. States like Delaware and South Dakota became safe havens for companies once the usury laws were dismantled and changed, allowing these states to let companies charge interest rates of 17.5% and higher. Delaware and South Dakota gave companies tax breaks and incentives to move there and allowed companies to charge as high interest rates as they could and wanted. “The industry’s risk-reward calculations since the early 1980s have changed because of the availability of vastly higher consumer interest rates than before. Rates of 18 percent or higher are commonplace today. Twenty years ago charging such rates was illegal, except for some relatively small niches carved out legally for small-loan companies. Usury was socially despised, and rates over 20 percent were often associated with shadowy alleyways and large men wearing brass knuckles”[15]. Companies began

[12] Ibid, 27.
[13] Ibid.
[14] Sullivan, Teresa A., Warren, Elizabeth., and Westbrook, Jay Lawrence. *The Fragile Middle Class Americans in Debt.* (New Haven, CT: Yale University Press, 2000), 246.
[15] Ibid, 249.

charging what became e a typical industry standard, 17.5 to 18 percent interest, on a normally issued card from a safe haven state.

The dismantling of what was once government sponsored society safe net programs and support structures put the middle class to the fire when it came to the credit card industry. A quote from *The Fragile Middle Class* highlights the shift in usury policies: “Congress and the Supreme Court effectively legalized what had been usury, overriding the restrictive state laws. Once one state raised its usury limits and creditors rushed in to make their loans from such protected places, many of the other states followed suit, if only to keep more lenders from relocating to usury-havens.”[16] The establishment of deregulated laws and court decisions by the Supreme Court, opened the door to abusive and predatorial credit business practices. Usury is the practice of loaning, lending, borrowing, spotting and covering to or for someone in exchange for more money as compensation for the money needed. Usury laws were put in place to defend the common American from loan sharks, gangsters/mobsters, criminals and other not so friendly characters. Usury laws would act as a shield and sanctuary for the middle class and all Americans from high interest credit card rate practices. But in the late 1970s and early 1980s, usury laws were pretty much thrown away and slowly started to be erased.

During the 1990s when computer software was tightening up, fraud was lessened by the advancement in credit card software. Fraud began to dramatically drop in the late twentieth century and by the 2000 was a much harder task to accomplish, especially when getting caught meant real time with a minimum sentence of three to five years depending on how much was stolen and what exact fraud was being committed.

[16] Ibid.

For many decades after the introduction of the credit card, it had been hard to tell during a transaction if a person was truly who they said they were. The breakthrough of being able to track, record and make real time decisions through the computer software was a major step in stopping fraud. Now shady business practices and charges were caught and reported. Here's an example: if a person is consistently shopping at stores in the New York and New Jersey area but then on the same day that they are making these purchases, there is also an in person purchase at a coffee shop in Texas, it will not be approved and flagged as fraudulent. Data records will find patterns and consistency in consumer habits. This helps protect both company and consumer despite the losses, especially if it was proven to be fraud. It would fall onto the credit companies and they would take the loss in profit. Solving fraud was not the biggest problem that had to be overcome in the early and late 1980s but it still was on the agenda[17] and it was another obstacle hurdled by the advancement of credit card computer software in the 1990s.

Another obstacle the industry overcame in the 1980s and 1990s was in getting cards to members all across the country in mass quantities. Just like all the problems mentioned before that the advancement in software technology helped fix, this issue was also solved and refined. Before the breakthrough in credit software technology, credit card companies and companies that had rights to disturb credit cards would just send them out in mass to whom they thought were members or to people who would possibly become users of credit cards. There were obviously multiple issues here, such as how would they know if their members received the card? Also, how would they know it was a member or if these cards got lost or fell into the wrong hands? There was no possible way for companies to track all of these cards once they went out, even with

[17] *Paying with Plastic,* 67.

the best lines of communication between postal services and company. There was too much ambiguity in this distributing process. With new software created specifically for credit cards and their distributing sector, however, distributing, tracking and confirming credit cards and their members was easier, faster and more accurate than ever. Cards got where they were supposed to go almost all of the time and if there was a problem, it could be reported, tracked and corrected within days, if not moments. This was quicker and smoother than ever before and could only be done with the advancements in software[18].

The credit card industry in the 1980s and 1990s had to overcome the hurdles of access and availability in order to make it possible for credit cards to be used by all consumers at all retailers. The industry was able to do this by creating computer software that created a network that completed this system. As with all of the other hurdles that computer software helped leap, the software made it so that tracking was easier than ever in the 1990s. Approving or declining a line of credit for a person was now not a difficult or long process. It was quick and easy with a person knowing the outcome within a couple of days instead of months. This made it so that the consumer was ready to go and confident to spend. Adding to the confidence was the merchant side of things as retailers, supermarkets and small businesses became willing to accept credit cards because it is a guaranteed payment.

However, with this new ability came control over who would and would not get lines of credit, the credit card industry started to evaluate people by different standards: where a person lived, what their race, gender, and age was, what education status they had, what class they are and, most importantly, their past credit/payment history. The

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[18] Ibid, 154.

way credit card companies used this information was both discriminating and targeting. The evaluations truly focused on “credit scores”[19] which is a profile/score based on credit/payment history. Companies are over reliant on credit scores and care less about information outside of credit scores. In the 1980s companies could discriminate against who they chose for a whole variety of reasons and they could target people who they believed would become trapped in debt. These practices greatly affected middle class Americans. Being in a position of being reliant on credit cards, trapped more middle-class Americans.

This ability of evaluating and distributing credit was both a class indicator and debt trap. As the access to credit grew, debt became something that greatly affected entrepreneurs and middle-class Americans. The American Dream involves taking risks and lines of credit are there to bankroll those risks, whether the pursuit works out or not. The poor are usually unable to get access or obtain credit. Credit cards are therefore very tough for someone on the outs to get. The years of perfecting the credit trap to make one/all reliant upon credit cards and debt was one key factor in this happening.

Once the credit card industry had established itself, it was able to become a strong lobbying party. By the 90s it had sway over congress and was influential in keeping usury laws weak/nonexistent. In November 1991, for instance, Senator Alphonse D’Amato showed how important the purveyors of these cards were to the economy. When Senator D'Amato helped introduce a bill that capped credit rates, “markets reacted by crashing 120 points on avg (Dow Jones)” after its introduction.[20] The bill was then scratched and the market responded by bouncing back up. This

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[19] *The Fragile Middle Class*, 246.
[20] *Paying with Plastic*, 5.

example from *Paying with Plastic* is a perfect illustration of how the credit industry has come to dominate the US economy and their lobbying abilities. Their profits are based on interest rates, which is something that both hurts the middle class and keeps them down. An idea for an attempt to adjust these rates sent wall street into a panic and the stock market crashed. This bill was scratched and never proposed again.

The credit trap is one of the two big reasons why debt is truly a middle class thing. There are very few legal instruments that aid middle class Americans in being able to preserve their wealth “Despite the many legal instruments that allow the rich to preserve and pass on great fortunes”[21]. Convenience plays a huge factor in the trap. The ability to use the card “when in need” is not only incredible but it was also “life saving”. Of course it is not actually life saving but it does “bail” people out of tough situations when in all reality it puts people and families in just as tough if not tougher positions in the future. But for most that's not something to think of now because this card, this convenient line of credit will help get all the Christmas gifts for this year or the groceries for the next few weeks. Whether the items are necessary to one's self or family is not the point, the point is that someone is able to consume whenever, however and most importantly as much as their credit will allow them to.

The second major factor in the growth of debt for the middle class in the late twentieth century was not just growing access to credit but the decline of jobs and job stability. In *The Fragile Middle Class, Americans in Debt*, the mention of a finding from a Labor Department survey revealed that “approximately eight million workers were displaced between 1995 and 1997.”[22] Job loss is a major stressor both for the family or

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[21] Williams, Brett. *Debt for Sale: A Social History of the Credit Trap*. (Philadelphia: University of Pennsylvania Press, Inc, 2011), 4.
[22] *The Fragile Middle Class*, 17.

person, emotionally and financially. What was once either a stable income or a reliable income is now gone and leaves holes in disposable money that can be used in order to make ends meet or pay for expenses and debt. With limited resources and income, a family or person can begin to struggle. Depending on how long the person is unemployed can sorely affect one's financial ability and standing.

Working with a different income or no income completely changes the financial approach an individual or family has to take. This difference affects all aspects of financial life and leads to despair and dysfunction. The job loss phenomenon comes in many different forms and carries many different reasons. The job loss list includes downsizing or being laid off, a company moving overseas, automation, injury or illness, a company going out of business and job erosion (being fired of course is job loss but is not part of the job loss phenomenon, being fired is more indicative of isolated situations). Many low skill high wage jobs were also lost or eliminated in the late twentieth century. Low skill high wage jobs were once a staple of the American middle class. Low skill high wage jobs require little to no education (usually no college but maybe slight training or certification process)[23], pay well and come with benefits provided by employers such as health care or pensions. Jobs that were not protected by strong unions were eliminated or outsourced to better affect the always import bottom line.

Instead of going into depth about every aspect of the job loss phenomenon to highlight the relationship between job loss and credit reliance among the middle class, this paper will go into brief detail about the core factors that created job loss and opened the door to credit card debt vulnerability. I will focus especially on outsourcing and

[23] Ibid, 76.

downsizing to a country with less expensive labor costs as well as injury or illness-related job erosion to demonstrate how the job loss phenomenon is one of two key factors that created the dependency of credit and debt for the American middle class.

Outsourcing and downsizing became very common practices following the era of Ronald Reagan in 1980. The practice of “Downsizing of the workforce, shifting manufacturing overseas, outsourcing work to independent contractors”[24] allows companies to increase profit margins. The idea is simple: replace work that is done from a domestic means or a worker at a company with an outside source to accomplish a work or task. Usually this source, contractor, or worker doing the work/task is cheaper to pay or charges much less. Downsizing is what takes place when workers are released from the employment force. This can be in the form of layoffs, hours being cut, or firings. Downsizing is an easy way for employers to cut costs and maintain the same profitability. Companies and manufacturer plants move to foreign countries or “overseas” in an effort to reduce the cost of labor. This move left many parts of the country, such as the Midwest (rust belt), northeast and mid-Atlantic with massive job loss because of local plants closing and leaving the country.

“In 1992 there were 5.6 million displaced workers, of whom a little more than half (52.1 percent) lost their jobs through plant shutdowns and about a sixth (16.3 percent) lost their jobs through downsizing at companies that remained open for business. Two years later another 4.5 million workers were displaced, this time 28 percent of them through downsizing. And between January 1995 and December 1997, 3.6 million

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[24] Ibid, 158.

workers were displaced"[25]. Because of the nature of outsourcing, downsizing and exporting labor to foreign countries, perks such as good wages and benefits like health care are out the window, costing employers and companies less. *The Fragile Middle Class* notes the following example: "In Rochester, New York, Kodak has cut 30,000 jobs since the 1980s and 6,300 since 1997, and Xerox has cut 3,000 jobs since 1994."[26] Job loss was the number one reason people filed for bankruptcy between 1990 and 2001. Many middle class Americans had to file for bankruptcy due to fear of not staying on top of their bills. Wilner and Bravely Barre from Pittsburgh demonstrate the problem of middle class had when things got out of control: "They filed for Chapter 7 not because they got in too deep with credit card debt but because they were in too deep to deal with credit card debt and Wilner's job loss"[27]. Loss of income through job loss makes it all the more difficult to handle one's credit card bills.

Job erosion, which began in the 1970s but really took hold in the 1980s with the Reagan era, is simply when a job starts to decrease pay and benefits making the job weaker, less stable and unreliable for a person to rely on. Job erosion makes someone's low skill high wage job a low wage job, affecting one's income greatly and putting significant financial pressure on an individual or family. What was once a good income is now changed and forcing people to work at a deficit, still having to pay whatever debts and make ends meet. Two things happen when one's job has been eroded: (1) the job may become part time or overtime may be cut and (2) the income

[25] Ibid, 85.
[26] Ibid, 104.
[27] Ibid, 113.

becomes inadequate. People will remain at their job or struggle to find a new one, waiting months to years before finding something that can add some income relief[28].

Additionally, injury or illness can result in many debilitating and crippling problems and conditions, leaving many unable to work if the injury or illness is bad enough. This is illustrated through the example of “John and Helen Torville, who live in a suburb just outside Pittsburgh, [and] were both in their mid-thirties, with some college under their belts and getting by okay, when Helen lost her job and John developed multiple sclerosis. John reported that they filed for bankruptcy after “the disease slowed me to the point I am unable to work.”[29] Even with disability, unemployment aid and aid in different forms, a person who cannot work cannot provide an adequate income that could support a middle-class lifestyle or make ends meet. “In general, the three systems designed for income maintenance and return to work are deliberately tied together to ensure that workers can rarely receive their previous incomes until they return to work….The worker’s compensation income limit is about 80 percent of preinjury income.”[30] One's job, even if they are able to work again at some point, is in an ambiguous state and it is likely that a person will lose their job or have to take a lesser position in which they are able to complete the tasks and work required by the job. It is more common to lose work and working opportunities in general after an injury or serious illness. *The Fragile Middle Class* gives the following example: “Darren and Sissy Dombrowski, a young couple in downstate Illinois, found themselves in bankruptcy after Darren suffered an injury that put him out of work for just six weeks.”[31] Darren was only

[28] Ibid, 82-88.
[29] Ibid, 162.
[30] Ibid, 159.
[31] Ibid, 162.

out of work for six weeks but for Darren and Sissy it was enough to put them under. Any difference can create a big gap in someone's finances when the income is adjusted even slightly. “More than six hundred million workdays a year are estimated to be lost because of illness or injury”[32] The loss of income due to injury or illness can make someone end up in a need to make ends meet. “Medically related unemployment–temporary or long-term—creates an even more important financial risk. Almost 60 percent of the debtors who report medical problems as causes of their bankruptcies cite the direct effects of medical problems in lost jobs or lost time on the job. Most often those effects have been monetized in the form of lost income and thus led to bankruptcy” for middle class couples like Darren and Sissy.[33] At an 18.7 percent interest rate, credit cards would allow them to get the things they need but also place them in debt that they were not able to pay.

Research and data has documented the relationship between the American middle class and credit card use as a primary factor of middle class Americans' debt. A study done by Judge Seller in the late 1990s in Ohio covered in *The Fragile Middle Class*, revealed shockingly high levels of credit card debt among many middle class Ohioans. A conclusion about middle class Americans nationally was made based on the data discovered by Judge Seller: “If the data from the 1997 Ohio sample are good estimates for all the debtors nationally who filed for bankruptcy in 1998, the latest year for complete data, more than half a million people filed for bankruptcy owing credit card debts that exceeded half a year’s income.”[34] The reliance on credit cards is the major factor behind this debt. In *The Fragile Middle Class*, the authors note that, “As the

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[32] Ibid, 159.
[33] Ibid, 162.
[34] Ibid, 133.

1990s drew to a close, American households carried an estimated $500 billion in outstanding credit card debt," a figure that is remarkably high considering yearly incomes and the fact that wages have fallen.[35] This figure and other credit card data figures involving credit card use and the overall amount of money spent using a credit card all allude to the truth: the middle class became increasingly entrenched in credit card reliance in the late twentieth century. "Credit card debt has become as much a part of American life as the credit card itself. People who would never have considered going to a finance company to borrow $5,000 to buy odd and ends will run up a credit card bill to $5,000 in charges of $35 and $50."[36]

Credit cards highlight this truth and help exploit the financial vulnerability of middle-class Americans. In *The Fragile Middle Class*, the authors describe two types of middle-class Americans that have debt problems because of the reliance on credit cards: Sliders and Crashers. Their names pretty much describe what type of debtors they are. Sliders are "people slide into debt, falling a little farther behind on their cards every month."[37] They are debtors who gradually increase their credit card charges even when they already have unpaid debt on the card, adding up little by little at a time until it becomes unsurmountable. Crashers are debtors who become over reliant on credit cards to help them make ends meet because of something going sideways. Whether it was job loss, injury, death of a family member or divorce, a crasher crashes almost at once.[38] They are both debtors who have fallen into serious debt with credit card usage because of their reliance upon these cards. Their common denominator was that both

[35] Ibid, 110.
[36] Ibid.
[37] Ibid.
[38] Ibid, 111.

sliders and crashers cannot rely upon their incomes and need to look to a different source to supplement the income. Most will not be able to pay back these charges because of interest on the charges and income to debt ratio entering a negative ratio. “Industry analysts estimate that using a typical minimum credit card pay-down rate, it would take thirty-four years to pay off a $2,500 loan, and total payments would exceed 300 percent of the original principal. With minimum monthly payments and 18 percent interest, most families will only fall further behind.”[39] It is almost impossible to think that a person would agree to a $2,500 loan that would take 34 years to pay off. But “necessity” and the fear of falling behind would make someone blindly go through with it. Part of the trap of credit cards is the easy way they “replace” income. Crashers and Sliders are examples of middle-class debtors whose lives have been turned upside down due to credit card debt. Although no one is holding a gun to their heads and making people use credit cards or obtain unpayable debts, people feel coerced into using their credit cards especially in times of income deficits. The credit card debt then exacerbates the income to debt ratio making a person trapped in debt.

Instead of companies offering assistance to manage spending and debt, consumers became the targets of massive ad campaigns and extended credit lines/longer credit leashes. As the authors of *The Fragile Middle Class* explain: “About half of all new solicitations are preapproved, indicating that the decision to extend credit has been made with no information other than a zip code or ordering preferences from certain mail order catalogs.”[40] Credit card companies strived to put credit cards in the hands of people who will continuously use the credit card even if the consumption is

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[39] Ibid, 112.
[40] Ibid, 246.

reckless. “We tend to blame the debtors rather than the institutions that did the irresponsible lending,” as a person's actions using the credit card matters little to the companies.[41] The ambiguity of the person's financial behavior matters little to the card companies because the more reckless or dependent a person is with or on the card, the higher chance of that person becoming trapped in debt they will not be able to get out of. More debt and longer time in debt equals more profit for the industry. The credit card industry dedicated resources and time to develop advertisements and more profitable strategies instead of figuring ways out to help burden middle class consumers.

Ads were created to picture credit cards as cool, reliable, convenient, and as accepted. The ads and mass distribution of cards were only part of the greater practice of debtor manipulation that took place in the 1980s and 1990s. Debtor manipulation is simple and discreet. Through finances, media, and everyday life, credit card companies have made it so that one rarely thinks about their purchases and does not question the high interest rates. Instead debtors just want to be like everyone else, use credit cards, think about purchases later and be able to consume to seem like they have the status like everyone else. This encourages debt to increase slowly. As the authors of *The Fragile Middle Class* explain: “The debt itself is incurred a little bit at a time, so that even large amounts of debt do not involve a single, sober decision to take on $25,00 or even $2,500 of debt.”[42] The manipulation factor helped trap and effectively keep people in debt, especially middle-class Americans who either have lost income recently or were using credit to supplement income. Encouragement to get new cards through targeted

[41] *Debt for Sale*, 6.
[42] *The Fragile Middle Class*, 245-246.

ads, to use the card, and to earn rewards are all techniques developed by the credit card industry through research and development.

If someone has accumulated large debt, the only thing that helps protect the middle-class American is bankruptcy. Bankruptcy is not a legal instrument that protects wealth or fortunes for middle class families. Instead it exists to help families when tragedy strikes. Bankruptcy (which will be discussed more later) and the credit trap does the exact opposite as all of the legal instruments that protect and preserve the rich and upper class. In the 1980's, protections and legal programs put in place shifted rapidly from the New Deal to Reaganism, with changing government laws and budgets focusing on the wealthy preserving their wealth. The 1980s and 1990 saw more credit card usage and debt than the previous three decades. Convenience and want come at a price: the price is high interest rates that can destroy one's financial stability and lead to chaos for a person or family. Because of consumerism and the wage problems following the great wages of the postwar era, middle-class Americans found themselves increasingly needing credit to simply make ends meet, such as making car payments, buying groceries or paying for much needed school supplies as the new school year comes to a start. When someone or a family is struggling to make ends meet they are likely to put all usable income towards the major priorities: house mortgages, car payments, medical bills, tuition loans, insurances payments (whether auto or health and life if their company/work does not have health/life coverage) or whatever other debts and payments one would have to make such as alimony payments for child support for some. The convenience and access of credit cards allows for middle-class families to buy everything they need and not have to diverge any funds away from these other

more important payments. “The middle-class way of life can be maintained for quite a while with smoke and mirrors–and many credit cards.”[43] Just like smoke this too disappears once the credit charges and interest rates become out of control.

The credit trap and the job problem can be seen as prime forces in debt being associated as a middle class phenomenon. The overwhelming weight that credit card debt brings could trap anyone. But as previously mentioned, it is that much more crippling for middle class Americans, drowning many in debt that bankrupts them. The Barres are an example from *The Fragile Middle Class* of debtors who went to bankruptcy court because of their credit card debt. “The Barres, a couple in their early thirties, live in a Pittsburgh suburb. They explain: ‘We got ourselves way over our heads with credit cards and other debts. Then my husband was unemployed and we were not able to keep up with payments. We also have no means of making a settlement’.”[44]. They were using credit cards, maybe not wisely, but they were using them the exact way they were supposed to: rack up as many charges and use it as much as possible. The Barres will be this paper's bankruptcy credit card debtors because they check off both boxes: job loss and they are trapped in the credit trap. The Barres' only option was bankruptcy to try and shed the debts, in order to start anew. “The difficulty was that their reduced income could not cover their living expenses and maintain their credit card payments, too.”[45] For Beverly and Wilner Barres, credit cards played a support role even when the income to debt ratio became worrisome. Only when prolonged use of the credit card occurred because of loss/lack of income, did the credit card debt become out of control going over their heads leading them to bankruptcy “Without credit card debt,

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[43] Ibid, 2.
[44] Ibid, 114.
[45] Ibid, 115.

they might have survived the unemployment. Beverly's check and unemployment insurance covered a bare minimum for living expenses. It wouldn't have been comfortable, but they might have gotten by. The difficulty was that their reduced income could not cover their living expenses and maintain their credit card payments, too."[46] The Barres were far from alone, even with more credit card debt than the average middle class American couple. Many middle-class Americans faced the same issues and were left with bankruptcy as their only solution to solving their credit card debt. The Administrative Office of the United States Courts in 1981 reported that there had been 312,914 non-business bankruptcy filings that year. By 1991, the Administrative Office of the United States Courts found that the number had risen to 811,206 and by 1999 it had climbed to 1,378,071 fillings.[47] "Filings over this eighteen-year period increased more than fourfold….More people are accumulating enough debt or losing enough income to reach the "tipping point" of bankruptcy"[48]. The raise in non-business bankruptcy filings between 1981 and 1999 show how filings have increased as greater debt burdens were acquired.[49] This data indicated how much of a problem credit card debt has become and how many middle-class Americans suffer due to their credit card debt problems.

In recent decades, a portion of the American middle class has suffered, as the United States economy and laws governing the economy and credit changed rapidly. The successful climate that once existed increasingly became an atmosphere of uncertainty. The debt that had arisen following the postwar success has greatly affected the middle class and has impacted the stability for many middle-class Americans. A

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[46] Ibid.
[47] Ibid, Pg 129.
[48] Ibid.
[49] Ibid.

vulnerable middle class was still succeeding in the American dream but credit cards would increasingly make them vulnerable. Credit card debt became a major factor, as the reliance of credit cards leading to credit card debt, especially when coupled with job loss or an economic hardship, left some middle-class Americans in financial failure and bankruptcy. *The Fragile Middle Class* notes that among middle class Americans filing for bankruptcy in 1981, 60% were carrying all purpose credit card debt. Debt, especially credit card debt and middle-class Americans have a close association due to a heavy reliance on credit cards to supplement income. Finding themselves in a position that was a rock and a hard place, many Americans needed more help and protection than the federal or state governments were going to provide when it comes to financial stability and well being. The credit card industry lacked protections and targeted vulnerable Americans in ways that have made many middle-class Americans economically vulnerable as capital consumerism and an unsustainable growth system could only be sustained by growing debt.

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