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The Credit Cards Impact on Consumer History

Credit Cards were immensely significant to consumer history in multiple ways. They first allowed for upper middle-class consumers to purchase goods out of their means. Credit provided an immediate improvement in their social status. It was instant gratification without the pain of seeing money lost. This translated into the proliferation of profits for businesses who now had the ability to sell goods that consumers would not have purchased with cash. This paper aims to focus on how this change led to a 'culture of indebtedness', or the tendency of consumers to spend beyond their means and what the credit card's role was in this shift. Credit cards changed consumer habits. We will explore these cultural changes through the concepts of consumers' detachment between cash and card, the process of cultural acceptance of debt, psychology used in advertisements for credit cards, and economist's viewpoints of the credit boom.

With corporations' primary goal being to sell more to the general consumer, credit cards paved an avenue for the continuation of selling, even when consumers couldn't purchase goods immediately. It would eventually give the ability for any company grow their revenue streams, at the customers dispense. One of such reasons is that consumers spent more when using cards, stemming from a disconnect between the card and the underlying cash.

The first credit cards were distributed to well to-do gentleman to be used at certain restaurants. The cards were successful, presumably because men could use the cards in lieu of cash, psychologically making them feel grander as they were able to charge the card. It was not known at the time but this was also the beginning of the feeling of disconnect between cards and cash. Experiments conducted by MIT have shown that consumers feel as though they are spending 50% less when using cards, than when paying with cash, through a psychological disconnect. Customers were willing to spend two times more when only able to purchase goods with a card, than when they were only able to purchase goods with cash.[i] Consumers spent *more* when using cards. The original cards were only debit, as the individual needed their cards to be directly backed with cash, but credit cards then allowed consumers to purchase goods before they had the money in their bank accounts. Credit existed in general stores for centuries, but the idea of one credit line to purchase all goods became popularized only in the 1920's and 1930's. Cards became a ubiquitous means of purchasing from every economic level. It led to ways of purchasing things impossible with cash, i.e. purchasing goods over the phone and internet, and have replaced the payment-plans set in place by department stores that were important to their sales volumes. This disconnect began the culture of indebtedness, consumers were spending more, before they had the cash on hand. This leads us to explore our next two questions: 1) Did consumers fully understand the costs and implications of credit and using credit cards? 2) Have credit cards encouraged people to become indebted, and hurt their financial securities over time?

We now explore the process of how we shifted into a culture of acceptance of debt. Before the 1920's it was almost impossible for the average individual to use credit systems. There were those with mortgage debt, but personal debt as it exists today, was non-existent. There were people who could borrow from loan sharks, but the process was looked down upon, where families would hide their 'shameful' debt, keeping it as a secret, even being referred to as the 'family skeleton'.[ii] In fact, economists believed that loaning money would cost the lender money rather than gain them money.

In the 1920's and 1930's American attitude toward debt began to shift, banks began to lend to individuals through after law reforms permitted legal personal loans, stepping toward the cultural acceptance of borrowing.[iii] They could also lend money with interest, making lending money a profitable business opportunity. We can now see in retrospect that debt levels up to today have exponentially increased since before credit cards and our debt culture. It seems to have stemmed from the 1920's shift, "debt and personal bankruptcy levels have increased over the decades and media reports of confused consumers have multiplied."[iv] In 1924, Journalist George Horace Lorimer wrote, "We are living in an age of credit.. or perhaps a more accurate delineation would be an age of debt. The firmly rooted aversion to debt in any form which prevailed a generation ago has almost completely evaporated".[v] We know that credit in some forms exists in some forms before this time period but it seemed people had a strong nostalgia about the way things were before credit, and people attributed the breakdown of wholesome economic decision-making to the growth of installment plans and credit systems.

From "1920 – 1929, the rise of consumer debt soared upward 131%."[vi] We will explore why this change occurred further later on, but we are currently exploring the implications of this data that the user base for the consumer credit systems was rising. The credit use was ubiquitous. But were the consumers knowledgeable of their actions and practicing financially smart credit choices? Thomas Durkin's research measures the awareness of individuals of annual percentage rates among holders of bank-type credit cards. He has found that over time as more people hold cards, the percentage of individuals with knowledge of annual percentage rates increased along with it. We see some of his data, year vs. percentage of individuals aware of annual percentage rates. All bank-holder's data: 1969 – 27%, 1970 – 63%, 1977 – 71%. We show the dates 1969, 1970, and 1977, because in this era was the biggest leap in consumer knowledge. Before 1969 the rates of knowledge of annual percentage rates were even lower, before 1969 exclusively smaller amounts of the card-holding population were aware of annual percentage rates. Consumers were not fully aware of the rates they were spending, as the strength of their consumer desire acted as a blinder to the 'safe' financial decisions. Consumers yearned for making more purchases and the acquisition of material goods since consumer culture became the norm, especially before the Great Depression, directly after, and when the advertisement revolution began. Credit opportunities and credit cards enabled the eager consumer to take this yearning, and continue to use it, beyond their means. It lead to impulsive decisions by the weak consumer. By allowing consumers to go into the 'negative' territory of debt, we allowed consumers an easy opportunity to lose financial stability quickly. This consumer culture did not end with the credit cards conception, in fact the credit system is still being used heavily today, and the acceptance of debt and decrease in personal savings is still very pervasive. Bryan Dan, Historian from the University of Chicago, writes of the history and implications of credit cards since 1958. We are focusing on the section labeled, "The explosion of consumer debt: 1982 – 2008.". After the 1982 recession, inflation rates plummeted, credit cards kept their rates at the same level, which became extremely profitable for them.[vii] There was a decline in personal savings rate, increase in advertising, increase in real estate prices. We saw *further* increase in the social acceptance of consumer debt, and a decline in financial literacy, all the way up to recent history. Bryan acknowledges and reminds us that the problem did not go away, but that it continues to prosper, remaining as a strong highlight in our consumer culture.

"Before the Great Depression, the wisdom of saving 10% out of a paycheck had been as deeply ingrained into the American mentality as free speech, apple pie, and baseball. By the mid 2000s, the personal savings rate was effectively zero and many millions of people were deeply in debt -- not from productive investment but from living beyond their means.".[viii] People had continued to practice keeping lower savings rates since the end of the Great Depression and the we see the continued rise of credit based institutions. We see the juxtaposition of proportion of people using credit cards to the extremely low levels of understanding of credit lines and rates when consumers began to use these credit cards. This is confusing to the objective outside observer since only a few centuries before consumer debt was extremely frowned upon, mentioned as the 'family's skeleton'. But then we see an enormous upward trend in consumer debt as loans became easily accessible, and credit opportunities were abundant. One would wonder how the culture shifted and why. We can look at how credit was advertised to see why this change was so significant, and why credit cards were so successful.

We re-examine Lendol Calder's book, *Financing the American Dream A Cultural History of Consumer Credit* mentioned earlier. In his Book, Calder analyzes the history of consumer credit, not only credit cards. He begins with the credit system, advertisements of installment plans, and then finally moves to credit cards. He begins with the description of credit, beginning with installment plans that would be paid back when the lender 'calls' for the payment. He explains how with book credit, it is repaid at the convenience of the lender. But, he ultimately explains how credit turned from a burden and a necessity to an opportunity that consumers flocked to, regardless of how indebtedness and borrowing was frowned upon and shameful only recently before. From "1920 – 1929, the rise of consumer debt soared upward 131%.".[ix] This rise in the acceptance of debt was lifted up by the ad-men who spread the terms "Buy Now, Save Later" and, "Take advantage of our easy payment plan!", like wildfire. This ended with the Depression but rose again to its original height in 1937. Consumer debt was high and consumers made poor decisions, only to be exploited by credit cards in the 50s. Terms were also changed, *pay as you use*, was said instead of *pay before you use*. The categories of wise borrowing and foolish borrowing became topics of conversation. This was to emphasize how borrowing wasn't always bad, associated borrowing and wiseness to build credibility to the entire credit process.

Calder goes on to outline the psychology behind the growth of *believing* in credit. By the 1950's people had changed their view on credit and "Thrift [was] now un-American".[x] All these ideas led to the credit card to become successful. We see debt acceptance rise as a result of how credit systems were marketed. Another factor in the change of societies ideas about debt came from American Economist Edwin R. A. Seligman.

Seligman, in 1929, helped to 'redefine' the concept of saving during the credit revolution. He had many ideas that were quickly translated into normal culture points. One important idea he spread was about the term 'saving'. The classic economical definition of saving was "putting money in the bank" and refraining from spending it. He suggested a different way to think about saving. He said that if it's true that consumers use a good over time and not all at once then purchasing a good whose utility would not be used up until an unknown future date would be a form of 'saving' since they money spent was an investment making the money go further than a lump sum result. With this logic, buying a car was a form of saving since the utility of the car lasted a long time. The factor he considered was whether the purchase was a logical investment.[xi] This definition is used even today when we use the term 'saving money' to refer to using our money to get a better deal.

He also argued that a family with car payments would be forced to work hard to make their credit payments and be less likely to spend paychecks on frivolous luxury items, essentially forcing them into a situation to make financially smart choices. This is where he asked the question: "Is installment selling actually spendthrift?", to invoke the conversation into the population.

We essentially see that the advertisements of credit cards were aimed toward diminishing the negative stereotype of indebtedness and glorifying the 'Buy now, Pay Later' ideas. This led to the mass distribution and use of credit systems and credit cards without the consumers knowing the correct way to use these tools to remain financially strong. Along with a psychological dissociation from credit and cash, consumers had a general difficulty staying out of debt, steering the general population into a culture of indebtedness. Credit cards are an enormous part of consumer history as they embody the desire to purchase without limit, and the indebtedness culture (which arguable stemmed directly from credit cards and advertisement) epitomizes the consumer culture, spending as a first priority, regardless of an individual's means. Credit cards are a *vessel* for these concepts, and an integral part of our consumer history.

End Notes

[i] Prelec, Drazen. "The Psychology of Spending." MIT Spectrum. Accessed April 28, 2018. https://spectrum.mit.edu/winter-1999/the-psychology-of-spending/.

[ii] John Raskob, financial executive and businessman for DuPont and General Motors

[iii] Katarina Keane, Hist289I. April 23, 2018

[iv] Durkin, Thomas A. "Credit Cards: Use and Consumer Attitudes, 1970 – 2000."*Federal Reserve Bulletin, 2000.* pp 101-111.

[v] George Horace Lorimer, *Saturday Evening Post.* 1924.

[vi] Calder, Lendol. *Financing the American Dream A Cultural History of Consumer Credit. Princeton University Press, 2009. (pp. 18)*

[vii] Bryan, Dan, University of Chicago, B.A. "A History of Credit Cards.: Editorial. *American History USA. 2012.*

[viii] Bryan, Dan, University of Chicago, B.A. "A History of Credit Cards.: Editorial. *American History USA. 2012.*

[ix] Calder, Lendol. *Financing the American Dream A Cultural History of Consumer Credit. Princeton University Press, 2009.*

[x]Calder, Lendol. *Financing the American Dream A Cultural History of Consumer Credit. Princeton University Press, 2009. (pp. 24)*

[xi] Edwin R. A. Seligman, *The Economics of Installment Selling,* 2 vols. (New York: Harper and Brothers, 1929)

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