THE US DEBTFARE STATE AND THE CREDIT CARD INDUSTRY: FORGING SPACES OF DISPOSSESSION

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ABSTRACT

Credit card debt is a ubiquitous feature of neoliberal capitalism. To explain the notable growth of credit card usage in the US, I adopt a historical materialist approach that employs two key analytical concepts – cannibalistic capitalism and the *debtfare* state – to capture the material, institutional and ideological dimensions of this process. Viewed within the bounds of cannibalistic capitalism, a mode of accumulation primarily based on the expansion of fictitious capital and secondary forms of exploitation, the debtfare state enhances the social power of money by allowing major credit card issuers (banks) to generate high levels of income from uncapped interest rates and policies that ensure the extension of plastic money to those who fall within Marx's category of the surplus population. While the expansion of debt subjects surplus workers to the disciplinary requirements of the market, it is unable to suspend the main tensions of cannibalistic capitalism, prompting ongoing reconstructions of the debtfare state.

KEYWORDS
Credit cards; neoliberalism; United States; cannibalistic capitalism; debtfare; fictitious c

INTRODUCTION

To augment their incomes, a significant number of underemployed and unemployed workers in the United States has come to rely heavily on expensive forms of debt, including payday loans, pawnshops, sub-prime mortgages, and credit cards. The latter have come to play an increasingly significant role in the highly lucrative poverty financing industry in the United States. Since the 1980s, credit card debt has grown at a rapid pace with the average the household registering $16,007 in credit card debt in 2011.[1] This growth has been highly uneven along class, racial and gendered lines. Generally speaking, the greatest increase in card usage has been among underemployed and unemployed workers, i.e., the sub-prime market (Karger, 2005; see also Tables 2 and 3 below). The 2004 *Survey of Consumer Finances* found that '84 percent of African-American households carried credit card debt compared with 54 percent of white households' (Federal Reserve Board, 2004). Paralleling the racial, class and gendered dimensions of the US sub-prime mortgage market, low-income borrowers, African Americans, Latinos, and single-women are more likely to carry high interest (above 20 percent) and fee-laden credit cards, whose balances are not cleared each month (Federal Reserve Board, 2009).

This growing dependence on credit cards is not a natural evolution of some mythical, self-equilibrating market (Friedman, 1962). In lieu of living wages, savings, and adequate welfare services, credit cards, among other high-cost debt instruments, fill a void in neoliberal capitalism, functioning as a safety net to pay for essential services and subsistence needs, particularly when workers fall ill, divorce and/or lose their jobs (Bird, 1997; Stegman, 2005). A good portion of an average family's monthly income today goes to servicing credit card debt (i.e., making minimum payments) (Federal Reserve Board, 2010) The precarious position of highly indebted workers is evident in the strong correlation between consumer bankruptcy filings and credit card debt (Sullivan, 2006; Moore, 2009). Some observers have also noted the connection between high levels of credit card debt and the sub-prime mortgage crisis of 2007, as many families were using home equity to make payments on credit card bills (Geisst, 2009). On the other side of the accounting ledger, credit cards represent one of the most lucrative sectors in the banking system. Banks that specialize in credit cards have greater profit rates than banks that do not. In 2007, the return on equity was 15.1 percent for credit card banks, compared to 8.2 percent for all banks (Consumers Union, 2009). Over the past several decades, the handful of US banks that have come to dominate approximately 90 percent of the credit card industry have accumulated massive amounts of wealth through usurious interest rates and fees, which have remained uncapped since the late 1970s (see Table 1 below).

Since the late 1990s, the literature on credit card debt has grown. Most of the discussions, which are of a popular and journalistic nature, have been critical of the unequal relations between consumers and lenders. The main limitation of these discussions is that they remain descriptive as opposed to analytical. Popular accounts of credit card debt largely centre on issues Wall Street greed and the lack of political will to implement more adequate consumer protection laws. In comparison, the relatively fewer scholarly contributions that focus on credit card debt fall under two broad areas of study: (1) consumer credit (cf. Bird, 1997; Dickerson, 2008; Moore, 2009), and (2) financialization (Langley, 2008; Montgomerie, 2009). These contributions are informative and empirically rich, particularly in terms of their ability to throw critical light on the legal structures and discursive processes governing the credit card industry and personal bankruptcy in the United States. They also reveal the ways in which the credit card industry benefits from, and perpetuates, socio-economic inequalities among consumers (Levitin, 2008). The research and theorization into new techniques of lending (models), credit-scoring and risk-based pricing strategies have also contributed greatly to our knowledge of the coercive relations of power in the credit card industry (Leyshon and Thrift, 1999; Marron, 2007; Burton, 2008).

Notwithstanding these qualities, both the popular and scholarly debates ignore or take as 'given' at least two important features of credit card debt: the social power of money and an understanding of the coercive and ideological roles of the neoliberal state, including the class nature of law and key tropes such as the democratization of credit and consumer protection. Marxian informed analyses of the sub-prime lending vis-à-vis the mortgage sector have reinvigorated the debates around the social power of money and the role of the state (Wyly et al., 2009; Lapavitsas, 2009). These contributions have offered alternative perspectives to competing social theories of money that draw on Simmel, Weber or Schumpeter as the starting point (Ingham, 1996; Zelizer, 1997). This paper builds on, and seeks to add to, these Marxian analyses. To this end, I ground my analysis of credit cards in a Marxist theory of money that views the social power of money as the basic expression of its ability to veil and distort relations of exploitation and domination in neoliberal-led capitalism.

In what follows, I employ a Marxian analysis to denaturalize credit card debt by critically interrogating and examining the role played by money and the state in constructing and recreating what Marx refers to as the 'the ordinary run of things' (Marx, 1990: 899). I am interested in understanding why the credit card industry has come to represent such a central feature under neoliberalism. Who benefits from this? A Marxian lens facilitates this analysis on two counts. First, it permits us to view credit cards as forms of money that express social power. Second, it allows us to grasp the class basis of the seemingly apolitical laws centred on consumer protection by understanding them as expressions of a neoliberal capitalist state. To capture the social power of money and the American neoliberal state as these relate to consumer credit, I rely on two analytical concepts: cannibalistic capitalism and the *debtfare* state.

Cannibalistic capitalism refers to a central form of accumulation in the neoliberal era that is fuelled by 'secondary forms of exploitation' – i.e., outside of waged labour – in which workers' real incomes are modified (Harvey, 1999). This form of credit-led accumulation emerged in the early 1980s with the persistence of stagnant real wages, high levels of (long-term) unemployment, and the ongoing structural violence of labour, e.g., dereliction of labour laws and the dominance of precarious, low-wage work (Wacquant, 2009). The high-income streams derived from cannibalistic capitalism ultimately rest on a 'gamble with the future' – the ability of the worker to make minimum interest payments on their non-collateralized debt (Bonefeld, 1995; Harvey, 1999). Moreover, credit card issuers (US banks) need to constantly ensure that a maximum amount of workers take on the greatest amount of debt at the highest interest rates and fees possible to extract ever higher rates of revenue streams.

The *debtfare* state legitimates, normalizes, depoliticizes and mediates the tensions emerging from cannibalistic capitalism. Facilitating intensified and expanded forms of predatory practices, the debtfare state protects banks through the ongoing deregulation of finance and legal policies.

The debtfare strategies of the state should, therefore, be viewed as complements to other key features of neoliberalization such as the workfare state (Peck, 2001) and the criminalization of poverty (Wacquant, 2009). Viewed within the bounds of cannibalistic capitalism, the debtfare state has enhanced the social power of money by legally and morally permitting credit card issuers (banks) to generate enormous amounts of income from uncapped interest rates and by continually extending plastic money to those who fall within Marx's category of the surplus population: the partially employed (underemployed) or wholly unemployed (Marx, 1976). This spatial fix also subjects surplus workers to the disciplinary requirements of the market, such as compelling them to find and accept any form of work to continue to be 'trustworthy' creditors (cf. Burton, 2008). As we will see, this solution can only temporarily suspend the main tension of cannibalistic capitalism.

My argument is developed in five main sections. Section One describes some of the key features of the credit card industry and highlights a basic contradiction in its accumulation strategy. Section Two elaborates on key aspects of cannibalistic capitalism and the debtfare state that frame the rest of the discussion. Section Three explores several historical developments that shed light on the rise and paradoxical nature of the spatio-temporal fixes in the credit card industry. Section Four exposes the class nature of neoliberal tropes by exploring several contemporary spatial and temporal displacements in the credit card industry: asset-backed securitization, the wooing of undocumented workers, and two specific legislative measures (the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 and the Credit Card Accountability, Responsibility and Disclosure Act of 2009). Section Five concludes by summarizing the argument and highlighting key findings emerging from the analysis.

THE CREDIT CARD INDUSTRY: AN OVERVIEW

The credit card industry is an oligopoly. Visa controls 50 percent of the market share, MasterCard controls an additional 25 percent, whilst American Express, Discover, and other smaller companies share the remaining 25 percent (Karger, 2005). It is important to note that neither Visa nor MasterCard issues credit cards. Rather, these companies provide advertising, credit authorization, and payment services for their financial members, most of whom are large US banks (see Table 1 below). Each financial institution sets its own credit card terms, interest rates, fees, and penalties. The loose structure of Visa and MasterCard explains the vast range of credit card terms, fees, and interest rates that are available (Manning, 2000).

Table 1
Top 4 Credit Card Issuers , 2009

Rank+	Credit Issued (in billions $)
1. Bank of America/MBNA (includes outstandings from US, UK, Ireland, Canada, and Spain)	194.70
2. JP Morgan Chase (US, Canada, France, Germany, Ireland, UK, Mexico and 22 other countries)	184.09
3. Citigroup (US, Canada, Mexico, Brazil, Australia, Korea, Taiwan, Hong Kong and 34 other countries)	148.90
4. American Express (US, Canada, Australia, New Zealand, UK, Mexico, Italy, Japan, France, Germany, Hong Kong, Singapore and 34 other countries)	105.00

Source: 'World's Top 10 Credit Card Issuers,' CNBC.com; data compiled from CreditCards.com and Nilson Report, December 2009.
+ The 5th ranking bank was Capital One (US, Canada, UK) with $68.78 in credit issued.

The two income-generating vehicles of the credit card industry are fees (e.g., late penalties, administrative fees, annual fees, processing fees, and so forth) and uncapped interest rates, which are set at the discretion of credit cards issuers. The type of debt that characterizes credit cards is known as revolving credit or unsecure debt. This describes open-ended loans with irregular balances that are subject to change on a monthly basis (Karger, 2005). So-called 'revolvers' are debtors who do not pay their credit card balance at the end of each month. Revolvers represent the most lucrative segment of credit card debtors, as card companies can extract interest payments for longer periods of time. In 2011, the total revolving debt in the US reached $796.1 billion from $54 billion in 1980.[2] Revolvers also account for a substantial segment of credit card users. In 2009, for instance, 56 percent of card users had an unpaid credit card balance.[3] Revolving debt levels have not only steadily increased since the 1980s, but also a disproportionate number of revolving debtors are non-white workers from poorer income brackets (Federal Reserve Board, 2001). The vulnerability and profile of these debtors is clearly revealed in the demographics of personal bankruptcy filings discussed below.

FRAMING DEBTFARE AND CANNIBALISTIC CAPITALISM

The Anatomy of Cannibalistic Capitalism

As noted above, cannibalistic capitalism captures a key mode of accumulation in the neoliberal era that is marked by 'secondary forms of exploitation'. This stands in contrast to 'primary forms of exploitation,' or what Harvey refers to as expanded reproduction of capital (Harvey, 1999, 2003). Harvey designates these spaces as accumulation by 'other means', or accumulation by dispossession. The latter occur outside of the capital relation, and centre primarily on the 'unholy alliance between state powers and the predatory aspects of financial capital forms' to pursue not only vulture forms of capitalism and cannibalistic practices, but also 'achieving harmonious global development' (Harvey, 2003: 136). These spaces of cannibalistic capitalism are inhabited by a growing, highly dynamic and heterogeneous group of 'others,' who are partially employed (underemployed) or wholly unemployed. Marx designated these others as the relative surplus population (Marx, 1976). For Marx, 'Every worker belongs to it during the time when [s]/he is only partially employed or wholly unemployed.' The term *relative* prefacing the concept of surplus population is that the latter is linked to, and thereby shapes and is shaped by, the wider processes of capital valorization, which normally involve the exploitation of labour in the formal sector of commodity production. It is important to emphasize the inseparability between the outside (expanded reproduction of capital), and secondary forms of exploitation, as Harvey does through terms such as *organic link* and *umbilical cord* (Harvey, 2003). The reason for this is twofold. First, there is an important distinction between the circulation of money as money (M-M1) and its circulation of capital (M-C-M1) (1999). Second, and related to the first point, the class-based attempt to engage in making money from money, which underpins cannibalistic capitalism, is a recurrent yet fragile solution to barriers to capital accumulation that has historically served to intensify rather than resolve these tensions in expanded reproduction of capital (Harvey, 1999).

Seen from the above perspective, a key component of cannibalistic capitalism is the social power of money, the basic expression of which is its ability to veil and distort relations of exploitation, inequality and domination by establishing the formal equality of commodity exchange (Marx, 1976; Harvey, 1999). Money's role in concealing exploitative relations within commodity exchange (i.e., the embodiment of socially necessary labour time), erases class distinctions and allows for their replacement by the crass democracy of money (Harvey, 1989: 168). Money thus dissolves all personal ties and dependencies in capitalist society to construct the *community of money* (Harvey, 1989). This community has both spatial and temporal features that appear as independent from money as the latter's underlying sources of class power (Harvey, 1989; Castree, 2009). Moreover, the fetishized community is based upon and legitimates 'individualism and certain concepts of liberty, freedom, and equality backed by laws of private property, rights to appropriation, and freedom of contract' (Harvey, 1989: 168). The social reproduction of the social phenomenon of money necessarily requires the state, with its appearance of pluralist neutrality, to reinforce these values and force consent through various forms of coercion (economic and physical).

Credit cards represent a particular type of money: fictitious capital, i.e., capital not backed by firm collateral (Henderson, 1998; Harvey, 1999). Fictitious capital wields temporal power over an uncertain future, as it describes a situation 'whenever credit is extended in advance, in anticipation of future labour as a counter-value' (Harvey, 1999: 284). The power of fictitious capital lies in its capacity to expand abstract wealth independently of (primary forms of) exploitation (expanded forms of reproduction), understood as the expropriation of surplus-value from workers in the realm of production.

As we will see below, credit card issuers have aggressively expanded their base to include the working poor and un- and under-employed workers. In Marxian terms, the latter group represents a sizeable population that, while heterogeneous and constantly shifting in terms of its demographics, is superfluous to capital's valorization requirements (Marx, 176: 782). In the context of the structural violence of neoliberal policy strategies –stagnant real wages and salaries, the commodification of public goods and services, the growing prevalence of low-wage jobs in the service sectors, and the turn to workfare from welfare – an increasing number workers have been relegated to the confines of the surplus population (Peck, 2001; Wacquant, 2009). For Marx, surplus workers are both the result of and lever to capital accumulation. The reserve industrial army acts to depress wages for formalized workers and creates what Harvey calls 'the necessary other' (Marx, 1976; Harvey, 2001, 2003). In terms of the credit card industry, the surplus population represents an untapped market of revolving debtors.

The attempt to make money from money entails contradictions that both drive spatio-temporal fixes and are complicated by them. As Marx reminds us, fictitious capital is both 'the saviour of accumulation' and 'the fountainhead of all manner of insane forms' because credit 'suspends the barriers to the realization of capital only by raising them to their most general form' (Harvey, 1999: 270, 286). Cannibalistic capitalism thus acts to accentuate contradictions because it increases secondary forms of accumulation without addressing the realm of production. As a form of money, fictitious capital is dependent on *future* revenue. In order for the credit card industry to ensure future income streams from a large number of workers holding maxed out credit cards with high interest rates, there must be a possibility for these workers to earn wages to service their debt. However, the latter cannot be directly controlled by either the credit card industry or the debtfare state.

The Debtfare State and its Central Tropes

The social power of fictitious capital cannot occur without the backing and constant intervention of the capitalist state. In the neoliberal era, the *debtfare* state fills this role. Debtfare involves coercive and ideological processes aimed at naturalizing and normalizing the widespread reliance on, and discipline of, credit to augment and/or replace the social wage. My understanding of the debtfare state is informed by three main sources: (1) a Marxian understanding of the state as an historical social relation; (2) Jamie Peck's theorization of the American workfare state (2001) and, (3) Loïc Wacquant's writings on the state of social insecurity (2009).

An element of the neoliberal state, debtfare has assisted in the ideological and coercive restructuring of the societal relations of capitalism since the early 1980s with the breakdown of Fordist forms of accumulation and the rise of workfare. The latter is characterized by the erosion of state sanctioned social protections and collective rights in favour of the maximization of work participation, competition, and individual responsibility (Peck, 2001; Wacquant, 2009). The debtfare state must be understood in tandem, and in tension, with the workfare state and other forms of intervention (e.g., prisonfare) because it similarly acts to reinforce the work ethic whilst increasing market dependency and discipline. Through the extension of credit cards to the surplus population, moreover, the debtfare state also fills, in part, the role of the social welfare system by providing individualized, market-based forms of subsistence.

Insofar as the debtfare state attempts to mediate the tensions emerging from fictitious capital, it is useful to highlight two interconnecting neoliberal tropes that the state draws upon to construct and reinforce the naturalness and normalcy of cannibalistic capitalism: the 'democratization of credit' and 'consumer protection'. These tropes constitute an ideological reinforcement of the ability of money to veil and distort relations of exploitation. The 'democratization of credit' trope, for example, refers to the removal of barriers that exclude access to credit, particularly for poor people or those with no credit history (Burton, 2008).

The primary method of 'democratizing' credit is through risk-based pricing. This mechanism lies at the heart of the most widely used credit-scoring devices in the United States, namely: FICO scores. Based on a mathematical – and thus seemingly neutral, fair and scientific – formula, FICO scores measure and define risk as the probability of default by the debtor. The higher the level of risk, the higher the amount of interest and fees the creditor is able to attach to her/his loan. FICO scores act not only as an important tool in constructing ideal type consumers but also in imposing market discipline. Those with scores below 600 are categorized as *sub-prime*. The stigma attached to the sub-prime category, which includes most workers in the surplus population, is associated with moral degradation and economic coercion in the form of high interest rates and fees (Leyshon and Thrift, 1999; Marron, 2007).

Similar to the 'democratization of credit' trope, the emphasis on 'consumer protection' is part and parcel of a move away from collective and rights-based worker protections towards individualised, market-driven forms of citizenship in which the state simply guarantees the formal equality of exchange. The role of the debtfare state is to protect the hyper-individualized consumer (Harvey, 2005) by ensuring that credit card companies act responsibly, upholding basic standards of fairness, transparency and accountability (White House, 2009). The discourse and practices of consumer protection therefore consolidate the role of the capitalist market in rectifying perceived problems with credit cards, namely: excluding and punishing irresponsible and unworthy consumers. The trope therefore allows the debtfare state to celebrate and normalize individualism, freedom, and equality within the community of money by reinforcing market mechanisms and shifting the focus away from state retrenchment in the subsidization of social reproduction.

A STYLIZED HISTORY OF DEBTFARE

Legalizing and Normalizing Usury

The 1970s was marked by stagflation, high interest rates, social unrest, and declining profitability in Fordist forms of production. Against this backdrop, the primary barrier to interest-generating accumulation remained fixed interest rates, as usury laws were still in effect in most states. Banks did not charge more than 2.5 to 3 percent higher than its cost of funds for a loan; so, for instance, the FICO score had limited applicability in terms of allowing banks to charge higher interest rates and thereby embrace less affluent (higher risk) yet more profitable workers (Marron, 2007). The powerful American Bankers Association repeatedly lobbied the government not only to lift the ceiling on interest rates but also to allow banks to charge these rates on a revolving basis, thereby creating a minimum balance.

Beginning with the 1968 Truth in Lending Act (TILA), a series of institutional changes began to remove these barriers, laying the foundation for what would become the debtfare state. The TILA, which formed part of the Consumer Protection Act, introduced minimum payments and standardized the calculation of interest with the creation of Annual Percentage Rates (APRs) (Peterson, 2003). In emphasising its commitment to ensuring that workers have the right to be informed about the nature of the charges they must pay when incurring loans, the TILA articulated the trope of ‘consumer protection’. Although consumers would not be protected in terms of the cost of the loan (i.e., interest rates based on ‘risk’), there were given the ‘choice’ (economic freedom) among lenders offering credit. Through its emphasis on consumer protection, the TILA also served to distort the arbitrary power of the debtfare state and credit card industry by rehearsing its commitment to formal equality, competitive individualism, and freedom for consumers as well as guaranteeing a level playing field through the act of disclosure (cf. Peterson, 2003). At the same time, the TILA was designed with an adequate number of loopholes for the banks’ credit card sector to manoeuvre around the cap on interest rates by adding fees to card balances, arguing that costs of handling and administration were rising and that, by adding fees now, the card companies were protecting consumers from higher costs in the future (Peterson, 2003).

Such institutional shifts altering the landscape of consumer credit continued in the subsequent decade. In a landmark 1978 ruling by the US Supreme Court (*Marquette National Bank v. First of Omaha Services Corporation*), lenders in one state with liberal usury laws were permitted to apply those rates to workers residing in states with more restrictive usury ceilings. The Marquette Decision thus served to undermine usury protection, which was a vital step in the growth of cannibalistic capitalism because high interest rates, with the application of risk-based pricing, allowed for not only a dramatic expansion in the scope and scale of consumer credit but also to higher levels of personal bankruptcies (Ellis, 1998).

Around the same time usury was legalized in 1978, several pieces of legislation were passed in the name of the democratization of credit, including the Equal Credit Opportunity (ECO) Act of 1975 and the Community Reinvestment Act (or, CRA) of 1977 (Federal Reserve Bank, 2008). This legislation, driven by both banks and grassroots movements, facilitated the spatial expansion and intensification of credit to poorer segments of the population, largely situated in marginalized, inner-city spaces. The CRA and ECO mobilised the assumptions of the debtfare state’s ‘democratization of credit’ trope. Those in favour of extending credit to sub-prime borrowers argued that the democratic values in the political arena should be transferred to the market in order to foster ‘a broader sharing of the benefits of the society’s economic endowments by a wider spectrum of consumers’ (Austin, 2004: 1255). The CRA and ECO were vital openings for providing credit card issuers the moral and legal openings to extend usurious fees to sub-prime (revolving) borrowers. As Table 2 (below) shows, consumer credit was growing quickly among the lower socio-economic groups throughout the 1980s. It is important to highlight that this expansion of credit took place alongside the ongoing dismantling of the social welfare state and the disappearance of secure, high-wage jobs in the productive realm, producing a social reality that dragged poorer workers into a growing reliance on private financing (e.g., credit cards) to augment or replace not only their social wages and subsistence needs, but also essential welfare services (Stegman and Faris, 2005). During this period, personal bankruptcies rose alongside poverty rates, unemployment, and interest rates (Mishel and Bernstein, 1994).

Table 2
Percent of families holding credit card balances, 1983 and 1989

Family income (1989 dollars)	Level (percent)	
	1983	1989
Less than 10,000	11.9	15.0
10,000-19,999	26.3	27.3
20,000-29,999	45.5	48.9
30,000-49,999	53.0	55.0
50,000 and more	48.4	53.1

Source: 1983-1989 Panel Survey of Consumer Finances, Washington, DC: Federal Reserve Bank.

A basic tension in cannibalistic capitalism is that the spatio-temporal fixes pursued by the credit card industry – i.e., aggressive expansion into the surplus population – resulted in higher income generation but also in higher levels of personal bankruptcies. As long as the income extracted through fees and interest rates remained greater than losses of revenue through bankruptcy, credit card issuers were still ahead in terms of income generation. Yet, this form of accumulation also depended on the ongoing discipline and social reproduction of the relative surplus population. For instance, one of the ultimate acts of disobedience is the breach of the legal contract with their creditors. When this contravention occurs, the otherwise equal, voluntary and democratic nature of the credit system asserts its class and coercive nature to protect and sanction the value of money and respect for the law. Personal bankruptcy laws are therefore an integral feature of the debtfare state.

The 1978 Reform of Bankruptcy Laws represented the first comprehensive overhaul of the Bankruptcy Act of 1898. Among the various changes introduced by the 1978 reform to personal bankruptcy was the inclusion of new types of bankruptcy, including Chapter 13 (reorganization of debts), which provided a longer and less convenient system of repayment than existing Chapter 7 provisions (discharge of all debts) (Kirschner and Volpin, 2009). Under pressure from the American Bankers' Association, the Bankruptcy Act was reformed once again in 1994. The reform sought to discourage consumers to file under Chapter 7 thereby making it easier for creditors in recovering claims against bankrupt estates, whilst simultaneously allowing creditors more time (as an expression of the social power of money) to impose market discipline and extract payments. In the immediate aftermath of the 1994 Reform Act, the profit margins of major banks issuing credit cards continued to expand – as did delinquency rates, exceeding 3.5 percent, the highest level since 1973, when statistics were first started collected (Ausubel, 1997).

THE CLASS NATURE OF DEBTFARE

Displacement of Time and Retreat into Virtual Space

The key to making money from money in the credit card business does not involve collecting the original loan but rather extracting the highest levels of interest and fees possible from the greatest number of people for the longest period of time. When this strategy hits a snag (e.g., interruptions to cash flow from interest and fee payments due to the steady increase of personal bankruptcies) new fixes become necessary. Such is the case with asset-backed securitization (transforming illiquid assets into tradeable securities, i.e., the *commodification* of debt) and the creation of swap markets (trading debt for something based on future cash flows) (Elul, 2005; Leyshon and Thrift, 2007).

The first case of credit card securitization occurred in 1986 but, as with other forms of asset-backed securitization (ABS), the procedure began to gain momentum in the late 1990s and took off in the 2000s. ABS of credit cards helps to resolve the contradictions in fictitious capital through a temporal fix in which the originator of the credit card loans (banks) are able to quickly commodify and sell this debt, often before the first minimum payment on the credit card falls due (Harvey, 1989: 194). Banks engage in credit card securitization as a way to overcome the limits to fictitious capital, since this form of temporal and spatial displacement allows a bank to shift the card loans off its balance sheet by selling them to outside institutional investors, such as pension and mutual funds. In this way, the problems involved in the future gamble with fictitious capital are resolved as risk is displaced onto other people. The credit card issuers, for example, receive money from selling the loan (workers' debt) in order to be able to invest in more (sub-prime) workers. On the demand side, institutional investors were eager to purchase credit card asset-backed securities in anticipation of profitable revenue streams.

Banking on More Surplus Workers

Aside from its ability to invert time and expand into more abstract and thus less visible and depoliticized spaces – offsetting risk as well as generating interest income in over-the-counter markets – the credit card industry has also continually sought to expand its debtor base by tapping into the unbanked and underbanked sectors of the surplus population. As we can see from Table 3 (below), the fastest growing income segments of (revolving) credit card use from 1989 to 2009 were based in the lowest two income percentiles.

Table 3

Percent of families holding credit card balances, 1989-2009

Percentile of income	Level (percent)							
	1989	1992	1995	1998	2001	2004	2007	2009*
Less than 20	15.3	23.4	26.0	24.5	30.3	28.8	25.7	28.4
20-39.9	27.6	41.9	43.2	40.9	44.5	42.9	39.4	38.2
40-59.9	48.9	51.9	52.9	50.1	52.8	55.1	54.9	50.7
60-79.9	57.3	55.6	60.0	57.4	52.6	56.1	62.1	56.9
80-89.9	58.3	53.6	61.0	53.1	50.3	57.6	55.8	51.9
90-100	40.5	37.9	47.3	42.1	33.1	38.5	40.6	32.4

Source: 2007 *Survey of Consumer Finances* Chartbook, p. 1157; *2009 data comes from the 2009 *Panel Survey of Consumer Finances.* Washington, DC: Federal Reserve Bank.

In their relentless search for income, credit card issuers began to enlist more debtors from the unbanked and underbanked categories, which still provides an untapped market. According to a Federal Deposit Insurance Corporation (FDIC) publication, '*National Survey of Unbanked and*

Underbanked Households,' an estimated 9 million American households, in which 17 million adults reside, are considered unbanked, a reference to the fact that these individuals do not have accounts at banks or other mainstream (formal) financial institutions. According to the FDIC, 21 million individuals may be classified as underbanked, which describes a category of people who hold a chequing or savings account but are dependent on alternative financial services, such as payday loans, pawnshops, rent-to-own facilities, and so forth (FDIC, 2009: 3; Rivlan, 2010). Predictibly, both unbanked and underbanked workers are largely drawn from low-income, ethnic and racial minorities as well as single-headed households (FDIC, 2009) and operate primarily, if not exclusively, with cash forms of money (Austin, 2004).

Precisely because of their relative poverty, such households are identified as a sizeable market for the extension of formalised debt. According to a 2008 study conducted by the Centre for Financial Services Innovation (CFSI) and co-sponsored by Citibank, Fidelity National Information Services, H&R Block, and MasterCard, approximately 106 million individuals (40 million households) are un- or underbanked, representing trillions of dollars of potential income. Among the individuals interviewed by CFSI, 41 percent were unemployed, 11 percent held part-time employment and 47 percent held full-time employment. Moreover, 25 percent of the respondents registered credit scores that were considered 'prime', whilst 42 percent had thin or no credit history (and thus could not be 'scored'), whereas 33 percent of the respondents were considered sub-prime (Centre for Financial Services Innovation, 2008).

Recently, the big banks that run the credit card industry have been targeting the approximately 10 to 20 million undocumented workers in the United States (Moore, 2009). Undocumented workers, like the surplus population in general, are not a homogeneous entity. Indeed, some illegal migrants earn enough money to place them squarely in the middle-class bracket (i.e., pre-tax income of $50,000). Regardless of their income differentials, however, undocumented workers generally share a constant state of fear of deportation and police harassment, the stigma of an outsider/non-citizen, and varying levels of economic insecurity. This susceptibility, combined with the burden of debt, creates a well-disciplined labour force and a potentially lucrative clientele for credit card companies. The Latino Community Credit Union in North Carolina started the practice of offering credit cards to customers who don't have a Social Security number and who are usually undocumented migrants. According to a story in the *Wall Street Journal*, Bank of America (see Table 1) has moved in quickly to claim this market of unbanked individuals, too. The credit cards are not cheap. They carry interest rates that typically hover at 21 percent and the fees attached to these cards are hefty. Some have estimated that $4 billion to $5 billion is generated for card companies through these kind of fees for financial services paid by vulnerable sections of the population.[4]

This strategy of extending the democratization of credit to undocumented workers allows the banks to break through barriers to capital accumulation whilst enticing '*non-citizens*' to become part of the *community of money* in which they can experience (temporarily) formal equality and formal freedom, at least within the realm of exchange. This also allows these illegal workers to build a credit history so that they can purchase cars, homes and other big-ticket items on credit ('Bank of America Casts Wider Net for Hispanics,' 13 February 2007, *Wall Street Journal*). Again, the state plays a paradoxical role in terms of its support for the expansion of the community of money. On the one hand, it must be seen to actively clamp down on illegal immigrants and thereby to feed the social construction of protecting the interests of the American worker by demonizing the 'other'. At the same time, the state's highly visible and coercive 'crackdowns' on illegal workers serve to instil constant fear and thus discipline among this segment of the surplus population. On the other hand, the state has stepped in to ensure that undocumented workers pay taxes through the single taxpayer identification number (ITIN) issued by the Internal Revenue Service and have access to formal banking facilities, such as credit cards, mortgages, and so forth in order to allow them to function at the bare minimum as market citizens ('Embracing Illegals Companies are getting hooked on the buying power of 11 million undocumented immigrants,' *BusinessWeek,* 18 July 2005).

In the aftermath of the 2008 credit crisis in the United States, the credit card industry capitalized on the opportunity to make money from another segment of the surplus population: the newly bankrupted. Workers facing foreclosures on their homes, including, as we will see below, the recently bankrupted, represent a potential source of income, particularly with regard to the fees and interests that can be earned through the issuance of secured credit cards. Secured credit cards require borrowers to guarantee the credit line in order to avoid default by supplying cash collateral through an escrowed savings account. These cards also come with extremely high interest rates and fees (Karger, 2005). Dispossessed workers turn to these sources of credit as they have no savings, no assets, no health insurance, and for the most part do not earn a living wage. Although the default rate is high for secured cards, the combination of low lines of credit and extremely high interest rates and fees (e.g., late fees) means that banks can still make a lot of money (Karger, 2005). It should be noted that secured credit cards are not an exclusive feature of the fringe economy. Some of the largest banks, such as Bank of America, Chase and Citigroup, engage in the extremely lucrative and growing sub-prime credit card lending ('A Big Lenders Credit Card Trap,' *Bloomberg BusinessWeek*, 12 June 2006).

As an increasing number of sub-prime debtors started to default on their mortgages in 2007, credit card issuers increased their efforts to sign up customers with tarnished financial histories. Direct mail credit card offers to sub-prime customers in the United States jumped 41 percent in the first half of 2007, compared with the first half of 2006, whilst direct mail offers targeted at customers with the best credit fell more than 13 percent. As home values decline and banks are turning away from issuing sub-prime mortgages, structurally dispossessed workers can no longer raise cash by tapping into their home equity. The only option left to these indebted workers can be credit cards. In an effort to distort and depoliticize the class nature of the sub-prime housing fiasco, the key lobby group for the credit card industry, the American Bankers Association (ABA), justified the direct mail offers in terms of the benefits market competition, i.e., better rates and terms for borrowers ('Credit card companies woo struggling mortgage-holders,' *The Boston Globe*, 4 September 2007).

Debtfare Protection for Banking Abuse

The predatory practices of cannibalistic capitalism, particularly its class, racial and gendered features have not gone unnoticed. In the early 2000s, predatory lending and abuses by credit card companies drew reaction from various states and civil society groups, such as the National Association of the Advancement of Colored People and the American Association of Retired Persons. At issue was the allegation that differentiated interest rates and fees were based on discrimination rather than on risk-based pricing (Wilmarth, 2006). These issues cast the racial, class and gendered dimensions of the sub-prime credit market into public view, threatening the tropes of consumer protection and the democratization of credit.

The debtfare state sought to depoliticize the growing complaints. To veil the discriminatory and predatory nature of cannibalistic capitalism at this time, the debtfare state intervened by protecting national banks from the disciplinary powers of state legislatures, who were nearer to public protest and discontent than the federal government, by locating responsibility in the obscure Office of the Comptroller of the Currency (OCC). The OCC is the only government agency that is allowed to enforce compliance by a national bank with applicable state or federal law (Wilmarth, 2006). To date, aside from the issuance of several sternly worded letters, which have been ignored by the banks, the OCC has not sought to mitigate banking abuse in consumer lending (Issacharoff, 2006).

The shifting of responsibility to the OCC was followed by the implementation of the draconian Bankruptcy Abuse Prevention and Consumer Protection Act (or, BAPCPA) in April 2005. The push for the BAPCPA was driven by the insistence of credit card issuers 'that the extraordinary increase in bankruptcy filings [over the past 30 years] is the consequence of declining stigma and 'too-easy' protection of moral slackers, who refuse to pay their debts' (Sullivan et al., 2006: 214). The BAPCPA, which made major changes to the 1994 Bankruptcy Reform Act, was seemingly created to protect creditors from bad market citizens, i.e., consumer abuse and lack of financial responsibility (Mann, 2006). For its supporters, such as the American Bankers Association and the US Chamber of Commerce, the statute would benefit both creditors and consumers equally. For instance, by making the option of personal bankruptcy less appealing for workers, its promoters argued that the BAPCPA would serve to reduce the losses by creditors and would therefore benefit consumers (workers) by lowering the cost of credit. The point remains, however, that the record profits registered by credit card companies have never translated into lower costs to credit card debtors (Simkovic, 2009).

Aside from augmenting the income of credit card issuers (banks), the BAPCPA, viewed here as an expression of the debtfare state, serves at least two purposes in terms of reproducing and legitimating cannibalistic capitalism. The BAPCPA exposes dispossessed workers and their families more starkly and over longer periods of time to market discipline. Indeed, the statute will 'facilitate the credit card lending business model, by slowing the time of inevitable filings by the deeply distressed and allowing issuers to earn greater revenues from those individuals' (Mann, 2006: 375-376). Put differently, the BAPCPA allows credit card issuers a longer period of time to extract income from debt-servicing revenues paid by distressed workers who are not yet in bankruptcy (Mann, 2006).

The BAPCPA reflects the power of money and its ability to impose market discipline by removing the right to self-determination by debtors to propose their own repayment plans. Under Chapter 13, for instance, the debtfare state determines how much a debtor must repay, based on their *disposable* income for a five-year period, lengthening the repayment plan by two years. BAPCPA defines disposable income as 'the difference between debtors' average monthly family income during the six months prior to filing and a new income exemption' (Moore, 2009: 430-431) The definition of disposable income is based on the determination by the Internal

Revenue Services of an allowance for living expenses for each debtor (Moore, 2009). The immediate effects of this particular definition of disposable income threatens the most vulnerable, namely, children and single mothers, as it allows more non-child-support debts to survive bankruptcy (e.g., credit card and auto loans) (Karger, 2005).

The BAPCPA also permits creditors (banks) to threaten debtors with costly litigation. Debtors, many of whom cannot afford to defend themselves in court, will be coerced into giving up their legal rights (Karger, 2005: 192). Other examples of the imposition of market discipline, disempowerment, and stigmatization from the community of money facilitated by the BAPCPA include the fact that the Act makes it easier for a residential landlord to evict a tenant who is in bankruptcy, even if the tenant has paid back rent (Karger, 2005: 193). In addition, under BAPCPA bankruptcy judges are not permitted to waive the means test even if the debtor has experienced extenuating circumstances, such as a medical emergency (Karger, 2005: 192).

A final manner in which the social power of money by credit card issuers imposes discipline and thereby assists in socially reproducing cannibalistic capitalism is through the increased and legitimated role the BAPCPA grants to credit counseling agencies (or, CCAs) (Karger, 2005). Briefly, the CCA industry is financed through a mechanism called Fair Share. Under this policy, credit card issuers voluntarily return a percentage of each payment they receive through a debt management plan (or, DMP). If the DMP is accepted, the credit card companies may waive late and other fees and grant a lower interest rate. Although monthly payments are slightly reduced, the full balance is still owed and interest continues to accrue during the repayment period, which usually takes four to five years and has a high failure rate (only 26 percent of debtors complete DMPs) (Stehl, 1999; Karger, 2005: 177). However, in keeping with Mann's aforementioned argument, the DMPs, like the BAPCPA, allow an extended period of time for credit card companies to receive payments on interest. Moreover, non-revolving debts, such as mortgages and auto loans, are rarely consolidated, which in turn has led to dangerous trade-offs whereby credit cards are given priority over homes and cars – two assets most workers require for shelter and work (Karger, 2005: 177).

In theory, the BAPCPA represented a huge win for credit card issuers. The banks were able to avert a number of legislative reforms demanded by consumer advocacy groups (e.g., dramatically cutting fees and limiting abusive marketing tactics) that would have dampened the banks income-generating strategies ('In Victory for Bush, House Approves Bankruptcy Bill,' *New York Times*, 14 April 2005). Revolving debt per household rose to its highest rate of increase in five years during the first year after BAPCPA, signalling business as usual. However, the reform was not able to resolve the underlying tension of cannibalistic capitalism. While the bankruptcy rate decreased sharply after BAPCPA went into effect, it increased quickly thereafter: 'By the end of 2007, the US bankruptcy rate exceeded all levels recorded during the 1980s, approached the levels prevalent during the early 1990s, and exceeded more than half of the level before the passage of the new law' (Weller et al. 2008: 1). According to the 2010 year-end filings report of the National Bankruptcy Research Centre, for example, 'data show that filings for 2010 finished just above 1,500,000 [or, 1 in 150 people] about 9 percent more than in 2009, and the highest since the two-million-plus filings in 2005' (National Bankruptcy Research Centre, 2011: 1). The 2005 bankruptcy legislation was also unable to meet its goal of mitigating the use of Chapter 7 (liquidation) and encouraging the use of Chapter 13 (rehabilitation). Indeed, there has been a continued decline in the use of Chapter 13 (only 28 percent of the filings in 2010), and ongoing prevalence of Chapter 7 (National Bankruptcy Research Centre, 2011: 2). The ongoing preference for Chapter 7 by insolvent debtors, despite its legal and financial hurdles, brings the reality of dispossessed workers caught in the exploitative webs of the high-debt, high-interest *modus operandi* of cannibalistic capitalism into sharp relief.

Closing the Circle? The Credit CARD Act

In the wake of the sub-prime debacle, increased disclosures, rising levels of unemployment and general discontent over the massive corporate bailout by taxpayers, the credit card industry has been thrust into the political spotlight. In May 2009, the Obama Administration implemented the Credit Card Accountability, Responsibility and Disclosure Act (hereafter: CARD Act). The CARD Act was described by the White House as a far-sweeping reform aimed at protecting consumers by ensuring that credit card companies act responsibly, upholding basic standards of fairness, transparency and accountability (White House, 2009). Under the new legislation, the Office of the Comptroller of the Currency (OCC) faded into the background once again, as the CARD Act amends Regulation Z of the Truth in Lending Act (TILA), which is to be carried out by the Federal Reserve Bank (‘Press Release,’ Federal Reserve, 29 September 2009).

On the surface, the CARD Act appears to be a stronger version of previous attempts to mitigate certain practices of credit card issuers. For example, the Act introduces provisions for a 45-day notice if the terms of the card change and prohibits interest rate increases in the first year. The Act, however, does not deal with the core features of the credit card industry’s power: uncapped interest rates. Although interest rates stabilized in 2010, the spread between the prime rate set by the Federal Reserve (3.25 percent) and the average APR on unsecured cards (14.06 percent) was the widest in the past two decades. According to an article in the *Wall Street Journal*, this gap is expected to broaden (‘A New Landscape for Credit Cards,’ *Wall Street Journal*, 23 January 2011).

In this respect, it is notable that the CARD Act only prevents issuers from raising rates retroactively. In other words, credit card issuers remain free to charge whatever rate they want at the start of the contract and during the lifespan of the contract, after the first year. While this has important ramifications for both secured and unsecured credit cards, workers who only qualify for secured cards (e.g., illegal migrants, newly bankrupted, etc.) are particularly vulnerable to high rates. In September 2010, Premier Bankcard of South Dakota mailed test offers of 79.9 and 59.9 annual percentage rates (APR) on credit cards with a $300 limit. The high APRs were justified by the risk-based pricing rationale. According to the CEO of Premier Bankcard, ‘We need to price our product based on the risk associated with this market and allow the customer to make the decision whether they want the product or not’ (‘Credit CARD Act: One Year Later, How's It Going?’ *Daily Finance*, 3 June 2011; ‘Issuer of 79.9 Percent Interest Rate Credit Card Defends Its Product, *CreditCards.com*, 12 February 2010). Premier Bankcard reported that the 79.9 percent APR was very popular with workers with bad credit ratings. However, the card ultimately, and unsurprisingly, performed poorly. According to Beacon, ‘A lot of the people ran up the card, defaulted and went directly to charge-off. Since then, nearly 700,000 people have signed up for the 59.9 percent card – and more than half of them carry a monthly balance’ (‘My Card had a 79.9 percent APR,’ *CNN.money*, 14 February 2011).

As a consequence, while the CARD Act has mitigated some of the predatory tendencies and excesses within the credit card industry, the industry's most profitable feature, namely usurious interest rates, have remained untouched. As was the case with its predecessor, the Truth in Lending Act (TILA), the CARD Act ultimately reproduces fetishized sentiments of formal freedom, equality and individual responsibilization thereby erasing the exploitative and unequal relations on which cannibalistic capitalism thrives. The CARD Act is thus designed to normalize the exploitative and disciplinary role in the everyday lives of indebted workers, particularly the working poor and structurally dispossessed. It also presents credit card issuers as willing partners in empowering, as opposed to protecting, consumers. According to Kenneth J. Clayton, Senior Vice President and General Counsel for the American Bankers Association Card Policy, 'The bottom line is this: the credit card industry is changing and these new rules will help empower consumers to take control of their personal finances' ('Consumers Benefit from Fed's Sweeping New Credit Card Rules,' *American Bankers Association*, 12 January 2010).

CONCLUSION

Cannibalistic capitalism and the debtfare state, I believe, are important analytical categories to make sense of the contradictions, relations of power, ideologies and discourses inherent to the dominant role of credit cards in contemporary capitalism. As increasing numbers of workers rely on highly exploitative, corporate forms of social welfare and wage replacement/augmentation, so too have modes of domination in the wider neoliberal state undergone a transformation, particularly in the face of growing levels of impoverishment and dispossession. In my attempt to denaturalize and repoliticize credit cards in contemporary neoliberalism I have suggested that the creation of a debtfare state has played a strategic role in constructing, mediating the tensions of, and socially reproducing cannibalistic capital accumulation strategies pursued by the credit card industry. Specifically, the debtfare state has allowed the credit card industry to overcome inherent barriers linked to its credit-led forms of accumulation involving primarily fictitious forms of capital, by facilitating ongoing spatio-temporal fixes through the legislative process. These fixes are not only temporary but also inherently paradoxical in nature, requiring subsequent rounds of intervention by the debtfare state. Finally, although my focus has been on the United States, I would like to stress that neither cannibalistic capitalism nor debtfare nor credit cards are a uniquely American or Anglo-American phenomenon. Credit card usage is growing and intensifying throughout the world, albeit at an uneven pace (cf. Dickerson 2008). Under such circumstances, the social power of money and the debtfare state need to be more closely investigated and interrogated, particularly in terms of consumer credit and its capitalist meanings and implications.

ENDNOTES

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[1] Accessed on 2 June 2011. Available at: www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php#ixzz1O86engjg.

[2] *Creditcards.com* accessed on 2 June 2011. Available at: http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php#ixzz1O8TUFoUJ.

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[3] About 56 percent of consumers carried an unpaid balance in the past 12 months, 'The Survey of Consumer Payment Choice,' *Federal Reserve Bank of Boston*, January 2010.

[4] 'Prepaid, reloadable payment cards for immigrants roll out: The "no SSN" [Security Card Number] prepaid cards offer respite from high-cost fringe services,' *CreditCards.com* 19 September 2008. Accessed on 19 May 2011. Available at: http://www.creditcards.com/credit-card-news/immigrants-prepaid-credit-cards-social-security-1282.php#ixzz1MixDgl3w

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