

A CRISIS OF CREDIT: JIMMY CARTER, CITIBANK, AND THE POLITICAL ECONOMY
OF CONSUMER CREDIT, 1958-1985

by

SEAN HARRIS VANATTA

(Under the Direction of Stephen Mihm)

ABSTRACT

This thesis traces two overlapping narratives: First, it examines the geographic transformations of consumer credit created by banks' mass mailing of credit cards in the years following World War II. In this period, mass mailing moved consumer credit from a series of community-based, personal relationships, largely regulated by states, to more institutional, impersonal, and distant relationships unencumbered by community control. Accompanying this transformation, and comprising the second narrative thread, was an increasing societal and regulatory scrutiny of credit-card marketing and use, culminating in The Credit Control Act of 1969 (CCA), a bill separately enacted and implemented in response to significant mass-mailing campaigns. In March 1980, President Jimmy Carter used the CCA to curtail the use of credit cards, an action praised by indebted citizens but crippling to the larger economy. By linking these narratives, this thesis demonstrates the centrality of consumer credit to Reagan's election and the subsequent neoliberal turn.

INDEX WORDS: Carter, Jimmy, 1924-; Citibank (New York, N.Y.) History; Consumer Credit - United States --History --20th Century; Credit Cards United States History; Presidents United States Election 1980.

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B.A., University of Georgia, 2007

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A Thesis Submitted to the Graduate Faculty of The University of Georgia in Partial Fulfillment
of the Requirements for the Degree

MASTER OF ARTS

ATHENS, GEORGIA

2011

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May 2011

DEDICATION

for May, for my parents, and for Sara

ACKNOWLEDGEMENTS

In writing this section, I find myself drawn to an old southern axiom appropriate to the substance of this study, viz. “It’s not owin’, but gettin’ to owe.” Over succeeding years, I have been fortunate that so many people, taking an interest in my progress and my project, have allowed me to be indebted to them for their time, advice, friendship, and in the case of the American taxpayers, a small portion of their money. All were indispensable to this project, and I hope I can here acknowledge these debts, even if I can never fully repay them.

The hard currency of the historical profession is archival research, and whatever wealth this document possesses is owed to the generosity of tireless archivists and other keepers of the vaults of knowledge. At the Jimmy Carter Library, Albert Nason and his staff were patient with my myriad call requests, while also helping to point my research in new and exciting directions. Though a 30 year moratorium limited what I could access there, Rodney A. Ross at the National Archives in Washington D.C. in one day taught me everything I know about navigating congressional documents. Ken Stewart was similarly helpful at the South Dakota State Historical Society, and though the Janklow papers may have been restricted, he and the rest of the staff still helped me find ways to tell South Dakota’s story. The same can also be said of Sara Wylie at the South Dakota State Library. Finally, Mary Medema and the rest of the staff at the Sioux Falls Development Foundation, Deb Gates at the South Dakota Bankers Association, and Doug Hayek all generously granted me unique access to the archives of their organizations and their firsthand knowledge of South Dakota and its development. For their generosity, and the correct pronunciation of “Pier,” I am eternally thankful.

Fittingly, I cannot make an adequate account without recognizing the generous financial assistance that made my research and writing possible. The University of Georgia's History Department amply compensated my labor and found me a badly needed teaching assistantship for my final semester in the program. The American taxpayers, through the William D. Ford Federal Direct Loan program, helped me pay off the credit-card debts that inspired this project, while kindly allowing me to defer payment over what looks to be an indefinite term in graduate school. Lastly, a Dean's Award in Arts and Humanities from the University of Georgia's Graduate School enabled me to fly to South Dakota – in February – and see on the ground and in the archives the story of Citibank's relocation there.

While such funding was indispensable, I have been truly enriched by the advisors and teachers who have invested their intellectual capital and wealth of friendship in this, my risky graduate venture. This project was conceived during a moment of panic in Jim Cobb's twentieth-century US seminar and that it has come this far is a testament, not just to his willingness to see where it might go, but to his ability to help shape an amorphous idea into a tangible product – as well as, perhaps, to his humility in accepting his homebrew defeat. That I can comfortably write about postwar political economy at all, I owe to Shane Hamilton and his graduate colloquium, which gave me a firm grounding in historiography and, moreover, a much needed lesson in what it takes to be a graduate student. Both his and Dr. Cobb's support as committee members have made this a much more refined product and given me a clear sense of its future direction. At the University of Georgia, I also have benefitted from the opportunity to work with Kathleen Clark, Benjamin Ehlers, John Inscoe, Allan Kulikoff, Bethany Moreton, and Pamela Voekel, all of which, directly or indirectly, gave me the tools I needed to complete this project. Moreover, I am especially grateful to Steve Berry, who has shaped my understanding of

what it means to write history, and whose guidance and friendship has been truly invaluable. I can say the same for my advisor Stephen Mihm, who took on this project despite it being outside of his temporal bailiwick, and gave me the confidence and encouragement necessary to bring this process to a successful conclusion. Along the way he and those aforementioned have not only helped me construct a document, but also a career.

My intellectual debentures are not solely held by the University of Georgia's faculty, but are also spread widely within my community of fellow graduate students and friends who have endured countless discussions about credit, debt, capitalism, and political economy. These talks occurred formally within organizations such as the History of Capitalism Reading Group, the Workshop in the Cultural History of Capitalism, the Student Speaker Series, the Georgia Writers Bloc, and the War and Society Workshop, all of which provided venues for conversation and camaraderie. They also occurred informally within the bowels of LeConte Hall and at many bev-com happy hours and Terrapin trips. All of my graduate colleagues have positively shaped my graduate experience, but I would like to give special thanks to Derek Bentley, Matt Bentrrott, Levi Collins, Ashton Ellett, Tim Johnson, Tom Okie, Tore Olsson, Lesley-Anne Reed, Franklin Sammons, and Trae Welborn. Cheers!

Further, there are debts I owe that are not tallied on any ledger or immediately evident in this manuscript. That I did not freeze to death in South Dakota I owe to the anonymous strangers who helped me free my rental car from a treacherous – by Georgia standards – snow bank. Yellow chair, sunlit desk, and cluttered kitchen table, all deserve recognition, as does over-crowded library bookshelf, over-stuffed file folders, and over-taxed LeConte Hall printer. The staffs at Allgood, Aromas, Blockader Homebrew and Supply, Five Points Bottle Shop, Little Kings Shuffle Club, Magnolia, The Royal Peasant, Square One Fish Company, Taco Stand, and

Walkers Café ad Pub all unknowingly contributed to the success of this project, as did the participants in the Windisch workout plan, even those who wimped out part of the way through. I can tally the fines paid to the University of Georgia Library, but I would have gladly spent twice that for their lending largess. And Laurie Kane, who always saves the day, you are truly the best.

Finally, the love and support of family and friends cannot be counted, captured, or capitalized, but holds untold value nonetheless. Thank you May for sleeping through most of the day and not complaining when I never walked you; Kyle for keeping me honest and reminding me who I am and where I come from; Alison, Justin, and Penny for giving me an end goal to emulate; Dad and Amy for a permanent roof, a guaranteed hot meal, and a full fridge; and Mom for always understanding. Most of all, this project exists because of the love, patience and work of Sara Vogelsang, who persevered through my excessively-alliterative prose, my mess, and my manifold faults. I have always been and always will be inspired by you.

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CHAPTER 1

INTRODUCTION

On May 22, 2009, President Barack Obama signed into law the Credit Card Accountability, Responsibility, and Disclosure Act, a bill intended to protect American consumers from onerous interest rate hikes and other account alterations perpetrated over the previous several months by many of the nation's leading credit-card companies. Though the firms responsible were, so they argued, simply adjusting their business practices to the sudden, unexpected downturn of the economy, Obama offered a harsh assessment of these companies' actions. "Contracts," the President chided, "are drafted not to inform, but to confuse. Mysterious fees appear on statements, payment deadlines shift, terms change, interest rates rise. And suddenly, a credit card becomes less of a lifeline and more of an anchor." The President, however, did not censure card-companies only, but had a stern message for consumers as well, who, by the time Obama signed the Credit CARD Act, had collectively incurred over \$916 billion in credit-card and related debt. "We expect consumers to live within their means and pay what they owe," Obama implored, adding, "this is a difficult time for our country, born in many ways of our collective failure to live up to our obligations to ourselves and to one another."¹

¹ Henry J. Pulizzi, "Obama Signs Credit-Card Overhaul into Law," *The Wall Street Journal* (hereafter *WSJ*), 22 May 2009, <http://online.wsj.com/article/SB124302235634548041.html> (Accessed April 2011, as will be all subsequent web citations); Barack Obama, "Remarks on Signing the Credit Card Accountability, Responsibility, and Disclosure Act of 2009," John T. Woolley and Gerhard Peters, ed., *The American Presidency Project*, <http://www.presidency.ucsb.edu/index.php> (hereafter cited as *American Presidency Project*), 22 May 2009; Federal Reserve, "G. 19, Consumer Credit, Historical Data," http://www.federalreserve.gov/releases/g19/hist/cc_hist_sa.txt. The Federal Reserve defines revolving debt as short- to intermediate-term debt held by individuals, excluding loans such as those for automobiles, education, and mobile homes, and those secured by real estate. The total listed above was down from an all time high of \$975 billion, and has since tumbled to \$874 billion as of November 2009.

Obama's remarks encapsulate decades of deep ambivalence about the increasing role consumer credit has played in keeping America's fragile middle-class afloat, a concern that has risen throughout the postwar period as Americans have become ever more reliant on debt to finance not only consumption, but at times the necessities of everyday life. Indeed, the President's comments came on the heels of almost thirty years of exponential debt growth, driven in large measure by ebbing wages and rising credit availability. Whether he knew it or not, President Obama was also echoing the strong words of one of his predecessors in the White House, Jimmy Carter, who in the spring of 1980 also reprimanded credit-wielding American citizens for "our failure in government and as individuals, as an entire American society, to live within our means."²

But Carter's moment was markedly different from Obama's. While Americans had been using credit to finance purchases throughout the twentieth century, it was only in the 1970s that unsecured, consumption driven debt levels burgeoned – an escalation that went hand in hand with the surging popularity of bank credit cards. Employing mass mailing to place cards into the hands of as many consumers as possible, commercial banks entered the credit-card field with abandon in the late-1970s, and many consumers eagerly accepted their proffered plastic as a hedge against falling purchasing power, pushed down as wages fell and prices rose. In one sense Carter saw the accelerating use of credit cards as a dangerous and inflationary threat to the nation's economy – a concern not extant in 2009; more importantly, he viewed the culture of consumption and self-indulgence that credit spending created as a danger to traditional American values of "hard work, strong families, close-knit communities, and our faith in God." Given

² Carter, "Anti-Inflation Program Remarks Announcing the Administration's Program," *American Presidency Project*, 14 March 1980; Teresa A. Sullivan, Elizabeth Warren, and Jay Lawrence Westbrook, *The Fragile Middle Class: Americans in Debt* (New Haven: Yale University Press, 2000).

Carter's enduring fear of declining American morality and confidence, this was no small concern.³

Consequently, Carter took action. In an effort to slow the expansion of credit-card spending, the President implemented provisions of the Credit Control Act of 1969 (CCA), which granted him the power to regulate any form of credit which, in his opinion, was being used in an excessive and inflationary manner. The "many credit card companies" that, as a White House Memo pointed out, were "actively promoting long-term debt by credit card, at 18% interest," fit this description rather well. Therefore, Carter authorized the Federal Reserve to require most card issuers to set aside a percentage of all new credit extended in non-interest bearing accounts with the Federal Reserve Bank, essentially taxing lenders on new extensions of credit. This policy was accompanied by a stern message from the President, in which he admonished Americans: "As individuals and as a nation, we must begin to spend money according to what we can afford in the long run and not according to what we can borrow in the short run."⁴

Though economists initially billed these controls as largely symbolic, credit use declined, savings rates increased, and while many objected, economic and anecdotal evidence confirmed that Carter's credit controls successfully stemmed the tide of consumer borrowing. One citizen spoke for many when he declared, "I'm in full support of President Carter's anti-inflationary attack on the use of credit cards...I am glad to see someone has intervened in this craze." Carter's action, and in a larger sense the anti-indulgent, moralizing tone set in the latter years of

³ Carter, "Address to the Nation on Energy and National Goals: 'The Malaise Speech,'" *American Presidency Project*, 15 July 1979.

⁴ Memo, Charles B. Holstein to Ester Peterson, 12 March 1979, "Credit Controls, 3/79 – 11/79" folder, Box 13, Special Advisor – Inflation, Kahn, Document, "Selective Control of Consumer Credit," 13 March 1979, "EPG: Economic 'Game Plan' [1]" folder, Box 108, Staff Office – CEA (Council of Economic Advisors); Memo, Charles B. Holstein to Ester Peterson, 12 March 1979, "Credit Controls, 3/79 – 11/79" folder, Box 13, Special Advisor – Inflation, Kahn, Jimmy Carter Library; "Withdrawal Pain for Credit-Card Holders," *Newsweek*, 31 March 1980, 29; Brett Williams, *Debt for Sale* (Philadelphia: University of Pennsylvania Press, 2004), 21; Carter, "Anti-Inflation Program Remarks Announcing the Administration's Program," *American Presidency Project*, 14 March 1980.

his presidency, challenged the legitimacy and increasing centrality of credit spending and consumer debt as the driving forces of the American economy.⁵

In the end, however, it all fell apart. Ronald Reagan – elected on the questions “Are you better off than you were four years ago? Is it easier for you to go buy things in the stores than it was four years ago?” – ushered in an era of economic exuberance, financed increasingly with public and private debt and justified by a rhetoric that assured Americans “We don't have inflation because the people are living too well.” Credit-card use, and attendant consumer indebtedness, expanded exponentially as card companies sought new markets and consumers bought their American dreams at 19.8 percent interest. Prime beneficiaries of this trend were the nation's banks generally, and Citibank – the nation's leading credit card issuer – in particular. These institutions used cards to construct national credit networks unbounded by geography and untroubled by local regulation, appropriating wealth while interweaving their card products into the fabric of everyday economic experience. As a result, Americans awoke to “Morning in America” far deeper in debt than they had been four years before; outstanding revolving consumer debt would double by 1985, again by 1990, again by 1995, and again by 2005, topping out in September 2008 – eight months before the Credit CARD Act crossed Obama's desk – at \$975 billion.⁶

In this sense, Reagan's election marks a decisive shift in the political economy of consumer credit in the United States, but a shift as much caused by the changing politics and

⁵Memo, Charlie Shultze to President Carter, 6 May 1980, “Memos to the President – 4/80” folder, Box 54, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library; “Consumer Debt Down Sharply: April Decline, Near \$2 Billion, Sets a Record,” *NYT* (Hereafter *NYT*), 7 June 1980, 25; Jerry L. Hunter, “Letters,” *Newsweek*, 14 April 1980, 6.

⁶Reagan, “Presidential Debate in Cleveland,” *American Presidency Project*, 28 October 1980; Burton I. Kaufman and Scott Kaufman, *The Presidency of James Earl Carter* (Lawrence: The University Press of Kansas, 2006), 2nd. Ed. Revised, pg. 205. 19.8 percent is the rate Citibank began charging once it moved its credit card operations to South Dakota, and was no longer subject to New York's low usury ceiling.

economies of credit as affecting them. The ideological, structural, and cultural forces that made the post-Reagan debt boom possible were coalescing throughout the postwar period, coming to a head as Carter struggled to rein in inflation and redirect the moral-economic compasses of his fellow Americans. Importantly, Carter's implementation of the CCA was not only a response to a recently acquired feeling that consumers were going into debt too heavily, but also a reaction to long-standing strategies employed by banks as they sought to realign the nation's consumer credit markets to their benefit. And while Carter's March 1980 action elicited a stirring response from Americans driven to credit by stagnating wages and pressing inflation, it also undermined consumer buying power propped up by bank credit, destabilizing the economy in the critical months preceding the November election. When Reagan asked voters whether it was easier for them to go shopping, many were compelled to answer "no," and of Americans who felt they were not better off than they were one year ago, 64 percent voted for Ronald Reagan.⁷

Indeed, while the well documented rise of cultural conservatism has fostered the view that Reagan's victory was all but predestined, his concrete questions about Americans' purchasing power, given resonance by Carter's attempt to rein in consumer credit, fronted Reagan's final and necessary push on the eve of the election. In this sense, consumer credit, and specifically Carter's use of the Credit Control Act, is a pivotal though heretofore unrecognized fulcrum on which the transition between the Carter and Reagan presidencies turned. Despite its centrality to Carter's moralist doctrine and monumental defeat, however, scholars have not taken adequate notice of the CCA. It appears as an incidental event in most treatments of the administration, while the weight of the historiography gives the sense that following his "Crisis

⁷ Reagan, "Presidential Debate in Cleveland," *American Presidency Project*, 28 October 1980; "1980 election day surveys by the New York Times/CBS News Poll," in Paul T. David, "The Election of 1980 and Its Consequences," Paul T. David and David H. Everson, ed., *The Presidential Election and Transition 1980-1981* (Carbondale, IL: Southern Illinois University Press, 1983), 165.

of Confidence” Speech in July 1979, the Carter presidency was, for all intents and purposes, over. Following the speech, as one recent Carter commentator has written, “The rest of the story, as the cliché goes, is history. Different strands wrapped around the same conclusion.” The strong consumer reaction to Carter’s credit control policy, if ultimately counter-productive for the administration, belies this assertion. Instead, the implementation of the CCA was a defining moment of the Carter presidency, one that embodied Carter’s core beliefs and marked the last substantive stand by a chief executive against the consumer-debt-driven economy until Obama’s relatively muted action almost 30 years later.⁸

Moreover, Carter’s use of the CCA stands astride a long developing transformation in what I term the geographies of consumer credit, by which I mean the bundle of spatial interactions – whether interpersonal, cognitive, regulatory, or political – that constitute the act and experience of obtaining, using, and servicing such credit. Over the twentieth century, the way consumers encountered credit moved from a series of community-based, personal relationships, largely regulated by states, to more institutional, impersonal, and distant relationships unencumbered by community control. This change, while rooted in the alienating

⁸ Kevin Mattson, “What the Heck Are You Up To Mr. President:” *Jimmy Carter, America’s “Malaise,” and the Speech That Should Have Changed the Country* (New York: Bloomsbury, 2009), 190. Scholars chronicling the Carter presidency in its entirety tend to almost totally ignore the CCA’s place in Carter’s March 1980 inflation-fighting measures, often glossing over this crucial policy action en route to discussions of Kennedy’s challenge for the Democratic nomination. Kaufman and Kaufman emphasize the federal budget (*The Presidency of James Earl Carter*, 204-208). Erwin Hargrove hints at the CCA’s importance, but moves on just as quickly (*Jimmy Carter as President: Leadership and the Politics of the Public Good* [Baton Rouge: Louisiana State University Press, 1988], 104). Julian Zelizer skips the March 14 measures altogether (*Jimmy Carter* [New York: Times Books, 2010]). Scholars concerned with Carter’s economic policy have similarly downplayed the CCA, as in: Anthony S. Campagna, *Economic Policy in the Carter Administration* (Westport, Conn.: Greenwood Press, 1995), 96; W. Carl Biven, *Jimmy Carter’s Economy: Policy in an Age of Limits* (Chapel Hill: The University of North Carolina Press, 2002), 246-249; Bruce J. Schulman, “Slouching Toward the Supply Side: Jimmy Carter and the New American Political Economy,” Gary M. Fink and Hugh Davis Graham eds., *The Carter Presidency: Policy Choices in the Post-New Deal Era* (Lawrence: University Press of Kansas, 1998), 57-62. Those interested in Reagan’s ascent, often more interested in long-term social and cultural developments, also neglect the CCA, eg. Gil Troy, *Morning in America: How Ronald Reagan Invented the 1980s* (Princeton: Princeton University Press, 2005); Sean Wilentz, *Age of Reagan: A History, 1974-2008* (New York: Harper, 2008); Donald T. Critchlow, *The Conservative Ascendancy: How the GOP Right Made Political History* (Cambridge: Harvard University Press, 2007). This neglect, in part, stems from members of the administration themselves, who, in light of the CCA’s negative results, largely distanced themselves from the policy, or, in the case of Carter, wrote it out of the history altogether.

nature of capitalism broadly, can be traced specifically to the expanding use of bank credit cards, which would become the prime symbols of credit-fueled consumerism in Reagan's America. This transformation began in the immediate postwar years, when federal and state regulation sharply restricted banks' geographic reach, creating a community based industry culture premised on serving the bank's local economic constituents. Credit cards, however, allowed aggressive and ambitious banks to circumvent these geographic boundaries, becoming, by the late-1970s, a technology of regulatory arbitrage that allowed banks to expand nationally while distancing themselves from state regulation and the consumers they served. Still, the development of this industry, now so central to financing American consumer capitalism, has received inadequate historical attention: While an extensive literature on credit and debt exists through the early twentieth century, the postwar period has received little serious coverage outside the fields of sociology and economics, and bank credit cards even less.⁹

Bank credit-card services evolved from community-based banking relationships, but as early as the late-1950s bankers determined that the most convenient way to quickly build market share was the mass, unsolicited mailing of cards to consumers. This practice often eliminated the previously necessary, personal interactions between the consumer and the credit grantor, creating a degree of spatial separation between the credit decision and purchase decision, making

⁹ The sole exception is Louis Hyman, who examines how business practices and government regulations interacted to contingently and haphazardly shape America's debt economy in the twentieth century (*Debtor Nation: The History of America in Red Ink* [Princeton: Princeton University Press, 2011]). While profoundly insightful, his account perhaps over-emphasizes the place and importance of department store credit cards vis-à-vis bank credit cards in the postwar period. Still, his work responds to a much more problematic credit-card literature, the works in which tend to fall into one of two categories: Either they are written by industry insiders and laudatory of the credit card's positive impact on society and the economy, or they are highly critical, often polemical attacks on the pernicious and pervasive nature of credit cards. The former include David Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Cambridge: MIT Press, 1999); Lewis Mandell, *The Credit Card Industry: A History* (Boston: Twayne Publishers, 1990); and though his account is more measured, Joseph Nocera, *A Piece of the Action: How the Middle Class Joined the Money Class* (New York: Simon & Schuster, 1994). The latter include: Charles R. Geisst, *Collateral Damaged: The Marketing of Consumer Debt to America* (New York: Bloomberg Press: 2009); Lloyd Klein, *It's in the Cards: Consumer Credit and the American Experience* (Westport, Conn: Praeger, 1999); Robert Manning, *Credit Card Nation* (New York: Basic Books, 2000); Matty Simmons, *The Credit Card Catastrophe: The 20th Century Phenomenon That Changed the World* (New York: Barricade Books, 1995); Brett Williams, *Debt for Sale*.

credit more anonymous and spending more impulsive. In fact, as economic-sociologists have conclusively shown, consumers using credit cards buy more, are willing to pay higher prices for the goods they purchase, and are often incapable of mediating between interest rate differences across debt categories. Still, through the mid-1970s, bank credit cards were issued locally, linking a consumer's credit to a nearby banking institution, maintaining community ties as well as the opportunity for local regulation of banks' credit practices. Soon, however, card issuing banks, led by Citi, attained new geographic mobility, further distancing themselves from the consumers they served while escaping the geographically-bounded regulatory regime. This movement, as this study will demonstrate, coincided with and directly influenced the development and deployment of Carter's credit control policy, while also undermining the policy's effectiveness along with the long-term viability of geographically regulated banking in the United States.¹⁰

These geographic transformations, when combined with the increasingly sophisticated financial instruments whereby banks pumped credit into the economy over the last decades, can help explain how total revolving debt outstanding ascended from almost \$57 billion in December 1979 to \$989 billion in December 2009, or from \$762 to \$3,219 – in constant 2009 dollars – for every man, woman, and child in the nation. This acceleration, however, is not only a recent story of financial woe; instead, the expansion of consumer credit and consumer debt must be viewed as central to the politics and economy of the twentieth-century United States over the entirety of the period. This is especially true as consumption and purchasing power have gained greater purchase as interpretative frameworks for this era, but scholars have largely failed to incorporate

¹⁰ Examples of this economic-sociological literature include: Elizabeth C. Hirschman, "Differences in Consumer Purchase Behavior by Credit Card Payment System," *Journal of Consumer Research* Vol. 6 (June 1979), 58-66; Drazen Prelec and Duncan Simester, "Always Leave Home Without It: A Further Investigation of the Credit-Card Effect on Willingness to Pay," *Marketing Letters* 12:1 (2001), 5-12.

credit into such analyses, an especially problematic omission. Indeed, the politics of purchasing power cannot be divorced from the political economy of consumer credit, particularly as consumers more and more often gained the power to purchase through credit cards and other forms of credit and debt. The development of the nation's credit and debt infrastructures over the whole twentieth century changed the ways consumers viewed their relationships to the economy and the state, while concurrently making consumer credit an increasingly necessary component of everyday life.¹¹

In this way, Carter's stand should not be viewed as a moment of contingency, when things could have turned out differently for the American public, but was more accurately one in a long series of failed resistances to the advancement of capitalism; one though that deserves to be rescued from the condescension of posterity because of the glimpse it provides on the forces that ensured Carter's failure. Credit and debt can be seen here, but so too can the ascendance of neoliberalism, an ideology variously emphasizing individual and market freedoms at the expense of liberal concerns for racial, class and other structural inequalities, as the dominant doctrine in American political-economic discourse. With this transition came the resurgence of the finance industry and the financialization of the American economy, the alienation of consumers from their communities and the substance of their pay envelopes, the decline of the welfare state, high inflation, structural unemployment, and Americans' enduring discomfort with consumption and

¹¹ Federal Reserve, "G. 19, Consumer Credit, Historical Data," http://www.federalreserve.gov/releases/g19/hist/cc_hist_sa.txt; Department of Commerce, Census Bureau, "U.S. Population Projections," <http://www.census.gov/population/www/projections/downloadablefiles.html>; Department of Commerce, Census Bureau, *Twentieth Census of the United States, 1980* (Washington: Government Printing Office, 1982), vol. I, 1-87; Department of Labor, Bureau of Labor Statistics, "CPI Inflation Calculator," http://www.bls.gov/data/inflation_calculator.htm. Hyman's work does much to address these concerns, but is by no means comprehensive. Two important works that rely on consumption and purchasing power to drive their interpretations of the twentieth century that do not incorporate consumer credit are Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton: Princeton University Press, 2005) and Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (New York: Vintage Books, 2003).

affluence. All of these forces intertwine in this story to bring about monumental changes in both the political economy of consumer credit and Jimmy Carter's political fortunes. That the final approval for Citibank's move to South Dakota came the day before Ronald Reagan was inaugurated as the 40th President of the United States, only demonstrates the degree to which conservatism and finance capitalism jointly profited from these transformations.

The narrative begins, then, at the turn of the twentieth century with what contemporaries termed the "credit revolution," a period when installment lending transformed personal credit and enabled the rise of America's mass-consumption economy in the decades before the Great Depression. In this era, most banks avoided consumer lending, preferring the steady, personal process of serving their local business constituents to making high-volume, fast-paced, and impersonal consumer loans. Instead, a variety of other businesses coalesced in this period to provide consumer credit services, including large department stores, which developed nascent credit-card systems to manage abundant consumer demand. Boosted by federal credit controls imposed during the Second World War, which privileged card-based billing systems that eased compliance with these controls, department store credit cards became, by the 1950s, the principal card type used by American consumers.

It was into this market that banks entered slowly in the late 1950s and on a wider scale in the late-1960s. Banks, though, faced a particular challenge in setting up their card systems; having to construct two markets simultaneously, they needed to enlist both retailers and consumers into the credit networks they sought to create. To achieve this goal, bankers employed innovative and aggressive marketing techniques to get their cards in the hands of consumers, hoping that if enough potential purchasers carried their cards, retailers would fall into line. The central aspect of this strategy was the mass, unsolicited mailing of bank credit cards.

While effective at generating volume, mass mailing also engendered enormous losses and made bank cards conspicuous targets for consumers and government officials not comfortable with the emerging debt-driven postwar economy, making politically palatable action aimed at constraining card-issuing banks' behavior. As a direct result, the mass-mailing of credit cards was banned in 1970, and further, as the first chapter will show, the political environment of outrage created by mass-mailing facilitated the passage of the Credit Control Act in December, 1969.

For banks, the mass-mailing ban came at a critical time, and it allowed them a brief period of calm and consolidation in the early-1970s. This calm ended in 1977. Citibank, dedicated to building a truly national bank outside of the geographically-restrictive regulatory apparatus, adopted a new strategy, employing cards with no fixed physical place to annex consumers into the bank's credit empire. As the second chapter will demonstrate, Citi capitalized on consumer confusion, mailing out 20 million pre-approved applications to citizens in 35 states, skirting the mass-mailing ban and instantly becoming the nation's largest card issuer. Citibank's aggressive action sparked a new phase of mass-solicitation, drawing the attention of the Carter White House and pushing Carter's economic team to seriously consider invoking provisions of the CCA to curtail credit-card lending. They would rule out this plan initially, while the administration became embroiled in Carter's more profound concern with energy, inflation, and ultimately the moral direction of the nation. The direct result was a dynamic shift in the tone of his presidency, culminating in the "Crisis of Confidence" or "Malaise" speech on July 15, 1979; indirectly, after Carter's post-speech cabinet shakeup, Paul Volcker was appointed Chairman of the Federal Reserve.

Volcker's appointment represented a key moment in the neoliberal turn, but it also held specifically deleterious effects for the bank credit card industry. As the Fed adopted monetarism in October 1979, banks, and especially Citibank with its millions of new card customers, became increasingly squeezed between the escalating cost of money and state usury ceilings that limited the interest they could charge their credit-card holders. While some banks bowed out of the card business, Citi scoured for regulatory loopholes, finding potential reprieve in a little-known Supreme Court ruling, the *Marquette Decision*, which opened the door for a deft regulatory arbitrage if the bank could relocate to a high usury state. At the same time, sensing the need for decisive action on inflation, Carter's advisors revisited the CCA, ultimately deciding, on March 12, 1980, to go ahead with controls on credit cards and other forms of unsecured consumer credit. On the same day, Citibank moved forward with its relocation strategy, receiving an official invitation from South Dakota, a state with no applicable usury ceiling, to relocate its credit-card division there.¹²

Thus, the stage was set for Carter's confrontation with credit cards and Citi's simultaneous decampment to more favorable regulatory climes. The third chapter explores these competing developments, beginning with Carter's firm assertion of "our failure...as an entire American society, to live within our means." Citizens took Carter's message seriously, forwarding new credit offers to the White House and sheathing their cards in solidarity with the President. Consumers were not the only ones withdrawing from credit markets, however, and at the same time banks and other lenders were withholding credit in response to both Volcker's tight money policy and the new costs imposed by Carter's controls. These actions quickly broke the back of the economy, driving up unemployment and crippling Carter's reelection effort.

¹² David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford university Press, 2005).

Despite its seemingly detrimental results, however, over the next few years some Democratic legislators sought to revive the CCA as an alternative to Reagan and Volcker's "scorched earth" economic policies; the futility of these efforts, both Carter's and the CCA revivalists', signaled a new political acceptance of debt as the driver of the United States' economy.¹³

Concurrently, Citibank's move was neither smooth nor speedy. South Dakota's invitation secured long-term stability for the bank's credit-card business, but Citi faced resistance from its New York City constituents, who felt that the bank was abandoning its local obligations, and the approval process dragged on for over a year. In the immediate term, then, Citibank was still losing millions on its card operation, and so too were the nation's other card issuers. Ironically, Carter's implementation of credit controls granted Citi and other bankers a reprieve, allowing them to re-price their card products while blaming these account alterations on unwarranted federal intervention. Still, it was Citi's relocation, which eventually culminated in June 1981, that had the most dramatic impact on the political economy and geography of consumer credit. After the move, a New York consumer, shopping at a New York retailer, using a credit card from a nominally New York bank, was subject to the lending laws not of the state of New York, but to those of South Dakota. Further, Citi's decampment spurred a regulatory race to the bottom as other banks sought more favorable environments, prompting most states to raise or eliminate their usury limits to restrain the movements of newly footloose banks.

Yet, while Citi used regulatory arbitrage to be profitable everywhere while accountable nowhere, the bank still "located" its credit operation *somewhere*, and that somewhere was Sioux Falls, South Dakota. For this reason, the third chapter concludes with a lengthy look at the state's attempt to mediate between local interests and the desires of one of the world's most

¹³ Rep. Fernand St. Germain quoted in Congress, House, "Credit Controls - A Chance to Do Something More than Talk About High Interest Rates," 97th Cong., 2nd Sess., *Congressional Record* (1 March 1982), 3246.

powerful financial institutions. That Citi tended to gain the upper hand is not surprising, but this examination emphasizes that increasingly placeless capital still relies on places, people, and communities, even as it tries to distance itself from them.

CHAPTER 2

CREDIT COMES IN THE MAIL

On Christmas Eve, 1969, President Richard Nixon reluctantly signed into law an omnibus economic package, blusterously named “A Bill to Lower Interest Rates, Fight Inflation, Help Housing, Small Business, and Employment.” The central provision of the package, to which Nixon ascribed “overwhelming urgency,” was the continuation of Federal regulatory authority over interest paid on accounts at banks and other deposit institutions, a power necessary to protect these institutions from “the risk of destructive competition.” Known to the financial industry as Regulation Q, this authority was intended to balance the market power of large banks, which could afford to pay depositors higher rates, with smaller, local banks, which could not, shielding these small institutions from an outflow of capital that could cripple their ability to perform crucial banking services. At the time, federal and state regulation sharply curtailed the geographic reach of most banks, tying communities’ access to credit to the vitality of local lenders. In a regulatory climate where money could move but banks could not, the majority of bankers and politicians believed Regulation Q was necessary to keep the economy running smoothly.¹

By limiting rates paid to depositors, Regulation Q could also ease inflationary pressure by helping bring down the cost of money for financial intermediaries, such as banks, who could then pass the savings on to borrowers through lower interest rates on loans. When the omnibus

¹ Richard Nixon, “Statement on Signing a Bill Affecting Interest, Credit, and Lending,” John T. Woolley and Gerhard Peters, ed., *The American Presidency Project*, <http://www.presidency.ucsb.edu/index.php>, hereafter cited as *American Presidency Project*, 24 December 1969. Regulation Q affected a variety of deposit institutions, such as saving and loans and industrial banks, but here and throughout this document I am concerned only with commercial banks.

package crossed Nixon's desk in December, 1969, the consumer price index was increasing at an annual rate of 6.2 percent, up from 4.7 the year before, a condition exacerbated by high interest rates that put further upward pressure on prices. The regulation, though, was set to expire on January 1, 1970, and Nixon urgently requested Congress to extend Regulation Q before they left for winter recess. Democratic legislators went further, and in an effort to augment the President's inflation-fighting arsenal, attached "a number of provisions that," Nixon protested, "the administration did not request and does not desire," including an especially potent hanger-on, the Credit Control Act of 1969 (CCA). Though a legislative barnacle, the act granted the President almost limitless power to regulate credit in the economy: "Whenever the President determines that such action is necessary or appropriate for the purpose of preventing or controlling inflation generated by the extension of credit," the act read, "the President may authorize the Board [of Governors of the Federal Reserve] to regulate and control any or all extensions of credit." With this authority, the president could hypothetically dictate maximum interest rates, shorten credit repayment periods, outlaw mortgages and business lending, or take virtually any other action he could think of – subject to the Fed's going along – to constrain the nation's credit markets in an effort to control inflation.²

Further, while the CCA offered Nixon potent inflation-fighting power, it, like Regulation Q, was also intended to address relative imbalances in market power. Specifically, the act's proponents sought to aid small borrowers such as consumers and small business owners who

² Nixon, "Statement on Signing a Bill Affecting Interest, Credit, and Lending," *American Presidency Project*, 24 December 1969; Congress, House, "Lower Interest rates, Fight Inflation, Help housing, Small business, and Employment," 91st Cong., 1st Sess., *Congressional Record* (17 December 1969), 39700; Department of Labor, Bureau of Labor Statistics, "Consumer Price Index," [ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt](http://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt). I used the annual average for 1968 and 1969 as opposed to focusing specifically on the month of December because the data were not precise enough to provide an accurate picture, while inflationary expectations tend to be shaped over the long term. Further, high interest rates exacerbate inflation by increasing producer costs, often passed on through higher prices.

could not gain favorable interest rates vis-à-vis larger borrowers, such as large corporations or the federal government, a condition exacerbated as interest rates rose. These large entities could, Democrats argued, absorb high borrowing costs while smaller borrowers were pushed out of the market. As one proponent of the act explained, “Instead of big business continuing to borrow all of the money they need at whatever interest rate – conscionable or unconscionable...necessary funds could be channeled instead into loans for housing...to build schools or provide essential needs, into loans for small businesses and so on.”³

Both Regulation Q and the Credit Control Act, in this sense, represented attempts to protect smaller, inherently local interests against larger competitors, preserving economic democracy in the face of an increasingly national, centralized, and coordinated market. For the CCA’s chief backers, notably Representative Wright Patman (D-TX) and Senator William Proxmire (D-WI), monopolistic market power wielded by big banks and big business clashed with a value system that favored local economic autonomy and, as one historian writes, “the democratic goals that they had inherited from the past.” With antecedents beginning at least with the Populists and stretching through the New Deal, this conflict was not new; Patman, for instance, had waged war against such interests since his election to the House of Representatives in 1929, culminating most notably in the Robinson-Patman act of 1936. But by 1969, the preservation of community control was increasingly imperiled by an assertively neoliberal business class and an environment in which advances in transportation, technology, and the

³ Rep. Wright Patman quoted in Congress, House, “Lower Interest rates, Fight Inflation, Help housing, Small business, and Employment,” 91st Cong., 1st Sess., *Congressional Record* (17 Decemer 1969), 39665; Rep. Leonor Sullivan quoted in Congress, House, “Conference Report on S. 2577, Lowering Interest Rates, Fighting Inflation, Helping Small Business, and Expanding the Mortgage Market,” 91st Cong., 1st Sess., *Congressional Record* (19 December 1969), 40241.

structures of capitalism itself all worked to undermine the importance of local geographies and consolidate local communities into an oligopolistic market.⁴

Still, while the CCA and Regulation Q crossed Nixon's desk together, he was not obliged to implement them that way. Citing ideological opposition to "a controlled economy," Nixon declined to implement the Credit Control Act – though he would institute mandatory wage and price freezes later in his presidency. Thus, while Regulation Q continued to remain in effect, the CCA lay dormant for a decade, reemerging in 1980 when Jimmy Carter, in the midst of an inflation battle of his own, employed its powers to rein in the accelerating use of credit cards. Although Carter did not conceive of his action as such – his motivations will be examined thoroughly in later chapters – the proliferation of credit cards, especially bank issued credit cards, encapsulated the problems of market power and local autonomy that the CCA's advocates sought to address. Indeed, the Members of Congress who pushed most forcefully for the Credit Control Act's passage in 1969, especially Patman and Proxmire, would have likely favored Carter's target. Both men expressed firm misgivings about the diffusion of credit cards in American society in the late 1960s, and spearheaded legislative efforts to rein in such expansion at that time. Although banks initially adopted credit cards as a means to gain greater control over local credit markets, by the time Carter targeted them for credit controls, large banks were using cards to blatantly circumvent geographic regulation.⁵ Before any of this could happen, however, consumers had to learn to use credit cards, a process, ironically, in which credit controls played a primary role.

⁴; Ellis W. Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: Princeton University Press, 1966), 4, 253-254.

⁵ Nixon, "Statement on Signing a Bill Affecting Interest, Credit, and Lending," *American Presidency Project*, 24 December 1969.

Looking Backward, or, rather, idealistically forward, Edward Bellamy proffered in 1888 what is consistently cited as the first reference to the payment device now known as the credit card: “A credit corresponding to his share of the annual product of the nation is given to every citizen at the beginning of each year,” Bellamy’s Dr. Leete tells *Looking Backward*’s time-traveling protagonist Julian West, along with “a credit card...with which he procures...whatever he desires whenever he desires it.” Bellamy’s story is set primarily in the year 2000, and his authorial act to assign every citizen a credit card elicited extensive comment as his prophetic year approached; however, despite this attention, Bellamy’s novel device played a minor role in a book more fully focused on challenging the pervasive injustices of industrial capitalism. Written in the heart of America’s Gilded Age, *Looking Backward* sets forth an imagined future society free of class conflict and inequality, debt and poverty – a vision far different than the world Bellamy and most nineteenth-century Americans actually inhabited.⁶

In the years following the Civil War, American society underwent a number of profound transformations, fronted by increasing urbanization, demographic mobility, and the gradual erosion of isolated community networks in the face of an expanding capitalist economy. Millions of workers, whether immigrants displaced in their home countries or Americans leaving the land to seek new opportunities, entered the nation’s cities and accepted the new rhythms and challenges of industrial work. The industrial labor system, which *Looking Backward* harshly critiqued, presented these workers with both new economic opportunities and potentially hazardous financial pitfalls; the shift from agricultural to industrial labor often correlated to more

⁶ Edward Bellamy, *Looking Backward: 2000 to 1887* (New York: Random House, 1917), 68. For examples of millennial interest in Bellamy’s credit card, see: Gary Wisby, “Forward ‘Looking’; Bellamy’s 1887 Novel Predicts Future,” *Chicago Sun-Times*, 7 February 1999, 28; Burt Solomon, “False Prophets,” *The National Journal* Vol. 31, No. 50 (11 December 1999), 3514; John Dunphy, “19th-Century Author Saw a Socialist Utopia for 2000,” *St. Louis Post-Dispatch*, 13 October 1999, B7; Scott McLemee, “Bookend; Back to the Future,” *New York Times* (Hereafter NYT), 24 December 2000, 7-23.

consistent incomes, but long work hours, dangerous conditions, and structural unemployment all undermined the steady paychecks of the nation's urban workers. Many a breadwinner likely empathized with Jurgis Rudkus, another turn-of-the-century protagonist, whose impassioned declaration, "I will work harder!" was no guarantee of a day's bread. Edward Bellamy's solution to these ills was an elaborate socialist utopia, yet in the practice of their everyday lives most Americans overcame the travails of capitalist feast or famine through an admixture of hard work, group solidarity, luck, and importantly, credit.⁷

Working class Americans could not, however, quickly turn to Visa or MasterCard when they needed groceries or their bills came due. The types of small scale lending which sustained lower-income workers were, in this era, constrained by a legal system that criminalized most forms of petty lending, and a Victorian ideology averse to "consumptive" borrowing. In this environment, credit intended for personal use – what we now think of as consumer credit – developed primarily at the margins of respectable society. Loans from family and friends, advances from pawnshops and loan sharks, or book credit from local retailers and itinerant peddlers all were facets of this underground money economy. These lending relationships were largely informal, organized through highly personalized, local networks.⁸

Yet while personal credit, in these cases, helped shield many household economies from the ebbs and flows of working-class life that Bellamy found so abhorrent, it did not as effectively meet the expanding needs of capitalist enterprise. The rise during the Gilded Age of an industrial economy increasingly geared toward mass production required the concomitant emergence of a consumer society increasingly geared toward mass consumption. When

⁷ Upton Sinclair, *The Jungle* (New York: Doubleday, Page & Co., 1906), 19, 22, 83; Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton: Princeton University Press, 2011), 11-12.

⁸ Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton: Princeton University Press, 2003), 37-38, 42, 64; Hyman, *Debtor Nation*, 1.

combined with urbanization, demographic mobility, and the erosion of community networks, forces which all destabilized older habits of buying and borrowing, new forms of personal credit became necessary to drive industrial growth. In this period the country underwent what contemporaries and scholars have termed a “credit revolution,” when a new form of debt, installment lending, emerged as a way for creditors to capitalize on the steady paychecks earned by the nation’s working- and middle-classes. For a reasonable down payment and a series of equal weekly or monthly payments over a fixed period thereafter, consumers could buy relatively expensive goods without paying the full amount upfront.⁹

Durable goods manufacturers, such as McCormick (farm implements), Singer (sewing machines), and especially General Motors pioneered this new form of borrowing-to-buy as a means of making their products accessible to a mass market. In doing so, they stimulated the development of a financial infrastructure that enabled consumers to purchase expensive, durable goods they otherwise could not afford. As selling on credit proved successful, and profitable, department stores and other retailers also began to offer credit to customers for consumerist purposes, often allowing customers to finance even petty purchases. This credit took two distinct forms: charge accounts, intended for more affluent borrowers who would – though in practice usually did not – pay off their accounts at the end of each month, and installment loans, primarily for working class individuals and paid over fixed, monthly payments. Such a class-biased system stigmatized installment lending vis-à-vis charge credit, but did little to stem the acceleration of consumer credit use. The introduction of finance companies in the same period furthered this growth, as these businesses purchased retailers’ outstanding consumer installment debts, enabling retailers to free up capital, loan more money, and sell more products. In this

⁹ Calder, *Financing the American Dream*, 26-28; Hyman, *Debtor Nation*, 20-31.

way, the “credit revolution,” as historian Louis Hyman notes, “allowed consumers to buy more, retailers to sell more, and manufacturers to make more, all at lower prices.”¹⁰

Contemporaries to the “credit revolution,” however, did not always see increasingly easy credit as an unequivocal boon. American society contained an old and entrenched cultural distaste for debt, dating from at least the colonial period and fostered through influential writings such as Benjamin Franklin’s *Poor Richard’s Almanac*. In the early twentieth century, Franklin’s admonishment, “He that goes a borrowing goes a sorrowing,” was taken up by a new generation of writers eager to denounce the new perils of borrowing, a movement headed by the novelist and newspaper magnate Irving Bacheller. In novels such as *Keeping Up With Lizzie*, which chronicled the scandalous impact of auto financing on young women, and “*Charge It*” or *Keeping up with Harry*, which demonstrated the emasculating effects of “easy money,” Bacheller took a firm stand against societally destructive consumer credit. Bacheller’s work struck a powerful chord, and *Keeping Up with Lizzie* sold over 100,000 copies in 1911 alone. In a complimentary review, the *New York Times* called the work “a parable dealing with the American proneness to splurge and the growing habit of living up to and beyond one’s income;” a plot summary that would work equally well for “*Charge It*” or any of Bacheller’s other anti-consumerist novels.¹¹

Bacheller attacked consumer credit from a variety of angles, but his chief concerns were that credit corrupted older American values of hard work and thrift, and that it led inevitably to inflation. Credit, in Bacheller’s telling, caused “a vast amount of unnecessary buying,” culminating in “a large and growing sisterhood and brotherhood of dead beats,” who have

¹⁰ Calder, *Financing the American Dream*, 19, 111-208; Hyman, *Debtor Nation*, 10-12, 27-31.

¹¹ Irving Bacheller, “*Charge It*” or *Keeping up with Harry: A Story of Fashionable Extravagance and of the Successful Efforts to Restrain it made by The Honorable Socrates Potter the Genial Friend of Lizzie* (New York: Harper and Brothers, 1912); “Keeping up with Lizzie: Mr. Irving Bacheller’s New England Parable of American Extravagance,” *NYT*, 26 March 1911, BR171; Calder, *Financing the American Dream*, 214.

“raised the cost of everything.” In this imagined world, the hard-working, thrifty Americans must subsidize such extravagancies by raising prices for those who pay promptly, promoting Bacheller’s view, as historian Lendol Calder notes, that “macroeconomics was a function of micromorality.” With consumer credit run amok, individual morality declines, especially in young men and women, who, according to Bacheller, “long for wealth and leisure. They grew impatient of the old process of thrift and industry. It was too slow”¹²

Despite his clear hostility to the new methods of buying and borrowing that flourished in the marketplace around him, Bacheller did not disdain all debt. In fact, the solutions to the buying binges portrayed in *Keeping Up With Lizzie* and “*Charge It*” were personal loans between the novels’ do-gooding moralist Socrates Potter and the youth Bacheller wished to rescue from their profligacy. Harry, “*Charge It*”’s protagonist, took Soc. Potter’s loan “as if it were the very straw he had been reaching for.” Loans between these individuals, always sealed with a handshake, recalled the very personal, rural relationships that Bacheller feared were being eroded by urbanization and consumerism, a fear that resonated with millions of Americans who were also searching for order at the turn of the twentieth century.¹³

While the impersonality of consumer credit disturbed Bacheller’s moral compass, it posed a different kind of problem for large retailers, who became increasingly reliant on credit to drive the high sales volumes that made their businesses profitable. As customers came to assume borrowing was part of the department store bargain, more and more began to demand credit privileges. Such demands strained the capabilities of department store credit departments, which had to promptly assess customers’ ability to pay, while also keeping track of which customers

¹² Bacheller, “*Charge It*,” 116, 34; Calder, *Financing the American Dream*, 216.

¹³ Bacheller, “*Charge It*,” 121; Calder, *Financing the American Dream*, 216; William Leach, *Land of Desire: Merchants, Power, and the Rise of a New American Culture* (New York: Pantheon Books, 1993), 125.

had already been granted borrowing privileges. With 10,000 customers in a store at any given time – as was the case for Filenes department store in downtown Boston – this could be truly daunting. To meet this challenge, large retailers developed the nation’s first card payment systems in the 1910s to help them identify and retain credit worthy customers. These early cards – “charge plates” they were called – were small metal plates embossed with the preferred customer’s name and address, and used to speed transactions by confirming the patron’s identity and credit worthiness. Indeed, charge plates emerged as technology to *repersonalize* the relationship between retailers and customers, enabling stores to build loyalty and recognized valued customers in cities otherwise filled with strangers. Still, such cards existed to facilitate the charge accounts of affluent customers, not the installment purchases of lower-income buyers, and while charge plates certainly conveyed status to their users, technologically they were little different from a nickel-plated calling card.¹⁴

What might be considered the first modern credit cards developed later, as historian Louis Hyman skillfully demonstrates, during World War II, when wartime credit controls changed the way both retailers and customers thought about and used consumer credit. Intended to stem inflation and to curtail the abuses of consumer credit, these controls, dubbed Regulation W, emerged as the public policy equivalent to Bacheller’s fictional writing, and had long-lasting, though now largely forgotten, effects on the political economy of credit. In his narrative, Hyman argues that by “intentionally constraining credit markets,” the federal government, “unintentionally fostered new competitive pressures within those markets which pushed retailers

¹⁴ Hyman, *Debtor Nation*, 43; Calder, *Financing the American Dream*, 72; Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton: Princeton University Press, 2005), 18. For a detailed use of the *repersonalization* concept, see: Sharon Ann Murphy, *Investing in Life: Insurance in Antebellum America* (Baltimore: Johns Hopkins University Press, 2010).

to innovate types of consumer credit.” The most important of these innovations was revolving credit, a hybridization of installment and charge credit, which, when combined with the Charge-Plate mechanized billing system, introduced millions of American consumers to the modern credit card.¹⁵

Though individual states long sought to regulate personal credit through usury and similar legislation, Regulation W marked the first direct intervention by the federal government into the consumer credit field. Ostensibly, the regulation was intended to curtail consumer purchases of important wartime commodities contained in items such as refrigerators and automobiles, by increasing the up-front cost of these items through higher down payments and shorter repayment periods. In a wartime climate of higher working-class wages but scarcer consumer goods, the creators of Regulation W also intended it to help combat inflation that might be exacerbated by credit-fueled anticipatory buying. Finally, by limiting demand, the proponents of Regulation W hoped to induce patriotic saving, and thus funnel more money into the government’s coffers through the sale of war bonds. Promoting this vision as part of larger effort “To keep the cost of living from spiraling upward,” President Roosevelt implored Americans that “we must discourage credit and installment buying, and encourage the paying off

¹⁵ Hyman, *Debtor Nation*, 168. The following section will draw heavily on the work of historian Louis Hyman. I find his argument – that consumers learned to use credit cards in department stores during and after the Second World War – to be the most compelling explanation for the genesis of the modern credit card. Here, he differs from the majority of credit-card scholars who tend to attribute this development to Frank McNamara, who conceptualized a universal card product in 1949, which would later become Diners Club. While McNamara’s concept would later prove important to the bank card industry, Hyman is right to point out that only relatively affluent businessmen would come into contact with the Diners Club or similar cards. Still, Hyman largely ignores card payment systems that predate his study, especially gasoline company cards, another important antecedent to the modern credit card. Further, in privileging department store cards in his narrative, Hyman intentionally downplays the role, place, and success of bank credit-cards, especially before the 1980s – when policy makers were worried about credit cards, as this study aims to demonstrate, they thought about Visa first and Sears second. Calder, *Financing the American Dream*, 72; Leach, *Land of Desire*, 125; Matty Simmons, *The Credit Card Catastrophe: The 20th Century Phenomenon That Changed the World* (New York: Barricade Books, 1995), 11-12; David S. Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Cambridge: The MIT Press, 1999), 24-25; Charles R. Geisst, *Collateral Damaged: The Marketing of Consumer Debt to America* (New York: Bloomberg Press: 2009), 85; Lewis Mandell, *The Credit Card Industry: A History* (Boston: Twayne Publishers, 1990), xiii, 1.

of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of war bonds.”¹⁶

While the short-term demands of global war justified this federal intervention, the advocates of Regulation W also had a long-term vision of the role credit controls might play in the peacetime economy. Like many New Deal and World War II era administrators, these men, notably Rolf Nugent and Leon Henderson, cut their teeth as local reformers, in their case specifically working to promote state-regulated small loan lenders as an alternative to the unregulated activities of loan sharks and other predatory lenders. These reformers continued to harbor concerns that consumers were falling prey to disreputable lending practices, especially those of installment lenders who sold goods to the low-income buyers at exorbitantly high interest rates, and believed that by federally controlling consumer credit, they might stem such abuses. Further, these reformers hoped that by increasing down payments and shortening payback periods, credit controls could stem the oscillations of the business cycle, which consumer credit exacerbated.¹⁷

Issued as an executive order in 1941 under the War Powers Act, Regulation W placed credit control authority with the Federal Reserve. As the proponents of the measure intended, the Federal Reserve prescribed rigid limits on the terms of installment loans, both mandating sizable down payments and limiting repayment periods, as a means to stymie demand and curtail inflation. Initially, though, the regulation contained sizable gaps, specifically not covering charge accounts, an oversight that led many retailers to increasingly favor charge accounts as a means to sidestep controls on installment lending. Consequently, in the spring of 1942, the

¹⁶ Franklin D. Roosevelt, “Message to Congress on an Economic Stabilization Program,” *American Presidency Project*, 27 April 1942; Hyman, *Debtor Nation*, 100.

¹⁷ Hyman, *Debtor Nation*, 100, 103.

Federal Reserve instituted far more draconian controls, extending Regulation W to cover charge accounts, ensuring, as Hyman writes, that “retailers...only use charge accounts for convenience credit – not for long term financing.”¹⁸

To secure compliance with these new controls, the Fed mandated that retailers freeze the charge accounts of customers who failed to meet their obligations within 90 days of a purchase. Knowing which accounts to freeze, however, posed a problem for large retailers because it was difficult to effectively transmit delinquent account information from the billing department’s records to the sales floor, especially for the thousands of daily customers making credit purchases. The most effective means of overcoming this tricky technological task was Charga-Plate technology, a proprietary mechanized billing system that drastically simplified compliance with Regulation W. The system relied on small metal plates, imprinted with the customer’s name and account number, which would mark the sales slip when the charge was made. The clerk could then compare the account number to a list of frozen accounts before finalizing the purchase. By simplifying this process, Charga-Plate, which had enjoyed limited use in the pre-war years, quickly became the industry standard for large retailers and department stores, and the plates themselves became synonymous with credit buying.¹⁹

To receive one of these cards, a customer first had to submit to an interview with one of the store’s credit managers and be deemed a safe credit risk. If satisfactory, the customer could then use their Charga-Plate to purchase goods throughout the store, spending up to the preset limit determined by the credit manager. Further, by choosing to enter into a relationship with a specific store and to endure an interview with that store’s credit manager, the consumer became voluntarily enmeshed into a set of relationships which emphasized the social and moral

¹⁸ Hyman, *Debtor Nation*, 105-115.

¹⁹ Hyman, *Debtor Nation*, 117-118.

obligations to repay debts in direct connection with the choice to consume; these relationships were inherently local, linking the consumer's credit to businesses and people within a discrete community. This relationship was further cemented by the card, which symbolized prompt payment in accordance with the federal government's credit control policy. Unlike in later years, when credit cards would come to be associated with profligacy and excess, in the 1940s and 1950s, a card holder could be self-satisfied that he paid his bills on time.²⁰

In addition to inadvertently promoting Charga-Plate technology, Regulation W also led to a new type of consumer credit called revolving credit. By placing firm limits on installment lending while ignoring charge accounts, the regulation invited retailers to experiment with new credit schemes to meet the continued credit demands of their customers. Revolving credit – a system where a customer is granted an open line of credit up to a fixed amount, purchases may be made on the account at anytime, the account has no fixed end date, and interest accrues on the outstanding balance – was one such innovation, and it became widely popular as Americans returned to full scale consumerism after the war. This transition was facilitated further by the fact that a revolving credit system was fully compatible with the Charga-Plate machines in which retailers had invested so heavily to comply with Regulation W. Because of these two developments, Charga-Plate adoption and revolving credit, Louis Hyman confidently asserts, “The majority of consumers...learned how to ‘charge it’ at department stores, where revolving credit had become common in the 1940s as the...result of...Regulation Q.”²¹

But while the consumer “credit revolution” wrought significant economic and social change in consumers' habits of buying and borrowing, in a certain sense the revolution virtually

²⁰ Hyman, *Debtor Nation*, 117-118.

²¹ Hyman, *Debtor Nation*, 100, 119-127.

bypassed the banking industry. The majority of bankers in the prewar decades were not particularly interested in serving the consumer market, and as late as 1930, an industry commentator could firmly assert, “The banking system exists to serve the needs of business,” and know that most bankers agreed. There was, after all, little reason in the booming 1920s for banks to look beyond their traditional business clients, especially their industrial and retail clients reaped the benefits of consumer credit. Though banks enjoyed the increased income that stemmed from a rosier economic climate, they had no desire to lend directly to consumers themselves.²²

One exception to this trend was Citibank, or the National City Bank of New York as it was officially known until 1976, which opened an installment loan department in 1928. Not intended as a money making incursion into the consumer credit field, the department was instead a unit of the bank’s public relations department, and was designed to serve the financial needs of customers displaced by New York’s Progressive Era drive to rid the city of loan sharks and bucket shops. As later CEO and Chairman Walter Wriston recalled:

The attorney general came in and had lunch with the chairman of Citibank, and [the chairman] congratulated the attorney general on closing up these shops that were charging 20 percent a day, and the attorney general said to the chairman, "That's nice, but who's going to take care of the people?" And the guy thought for a while and he said, "We will." And he turned to this fellow, Roger Steffan, and said, "You set up a program to lend money to ordinary working people in the city of New York." And it was opened at 42nd Street and Vanderbilt Avenue, and the first day there was a double line around the block. It was all on ledger cards. You can't believe the thing. I used to audit the thing.²³

The thing, as Wriston’s quote suggests, was extremely popular, offering small cash installment loans to working-class borrowers, which were to be repaid over a series of regular

²² Virgil Willit, *Selected Articles on Chain, Group and Branch Banking* (New York: The H. W. Wilson Company, 1930), 9; Hyman, *Debtor Nation*, 23-24, 30-31, 73-78.

²³ Walter Wriston, Interview, 28 April 2004, in PBS, *Frontline*, “Secret History of the Credit Card,” <http://www.pbs.org/wgbh/pages/frontline/shows/credit/interviews/wriston.html>; Hyman, *Debtor Nation*, 71.

intervals. Importantly, these loans were not intended to fund material – and thus consumerist – wants, but were instead issued for what Citi executives considered worthy and moral needs, such as child birth or unanticipated medical expenses. To ensure a customer was deserving of the company’s lending largess, Citi’s loan officers relied on personal engagement with the prospective customer to consummate the credit arrangement. This engagement mimicked the bank’s usual business lending practices, though with much greater efficiency; in spite of the moralistic restrictions, by the 1930s, Citibank had more than 250,000 customers walk through its doors every year eager to take advantage of the convenience and utility of ready cash.²⁴

These lending limits reflected the economic paternalism of Citi and other bankers who, in the heart of the “credit revolution,” sought to discourage wanton consumerism and inculcate the ideology of thrift in borrowers, often linking loan repayment to regular deposits in an effort to internalize saving behavior. This approach mirrored other, often elitist, Progressive Era approaches to improving the lives of the lower classes, but it also arose from a broader banking industry culture, which emphasized bankers’ social responsibility for the economic wellbeing of their communities. By curtailing loan sharking, New York City officials removed an important source of credit for the city’s working poor, which Citibank executives agreed to fill, thereby accepting a new class of socially justifiable risks. In this sense, Citibankers justified their position of economic status by assuming the role of guardian of their community’s financial health, an idealized self-representation adopted by many bankers in the period and since. As bank reformer Henry M. Dawes contended, “Remembering that the banker is a trustee for the community’s funds, he has no more right to withhold them unreasonably than he has to distribute them carelessly.” The link to community, to a specific place, was central to a symbolic moral

²⁴ Philip Zweig, *Wriston: Walter Wriston, Citibank and the Rise and Fall of American Financial Supremacy* (New York: Crown Publishers, 1995), 540; Hyman, *Debtor Nation*, 75-76, 89.

economy that, while imperfectly practiced, helped rationalize and justify the ways bankers interacted with the communities from which they profited.²⁵

Further, this imagined role that Citibank executives filled was rooted in an American banking system that had long favored small, local banks as a means to promote economic democracy and ensure community control over local economic resources. Most states had low capital requirements, which made it easier for small, community banks to form, while many states also restricted or banned branching, so that banks were often only allowed one location or multiple locations within a single city. While rooted in community, this system also was profoundly unstable, and many undercapitalized or poorly managed banks went under as local economic conditions ebbed and flowed. Bank reformers in the 1920s pushed to expand branch banking as a means to bring more stability to the banking system, but the movement enjoyed only modest success and for most Americans banking was an inherently local activity. National banks, chartered at the federal instead of state level, operated under even tighter geographic restrictions; until the 1926 passage of the McFadden act granted them a measure of competitive equality with state banks, national banks were confined to the specific “location” specified in their charter, and could not build branches. Both stemming from and reinforcing localism, the geographic banking boundaries fostered a community oriented industry culture that prioritized the banker’s connection to a specific place and obligation to his local economic constituents.²⁶

Still, this reputational capital seldom ensured that bankers always worked in the interest of their communities, as the events precipitating the Great Depression made clear. Indeed, while

²⁵ Hyman, *Debtor Nation*, 76-77; Henry M. Dawes, “In Defense of Unit Banking,” in Virgil Willit, ed., *Selected Articles on Chain, Group and Branch Banking* (New York: The H. W. Wilson Co., 1930), 255.

²⁶ This assertion is based on earlier work exploring constructions of banker masculinity and industry culture during this period (Sean H. Vanatta, “Fiscal Paternalist to Corporate Banker: Gendered Constructions in Post-War American Banking,” [Unpublished seminar paper: University of Georgia, December 2009], in author’s possession). See also: Emory Kimbrough, Jr., “The Role of the Banker in a Small City,” *Social Forces* Vol. 36, No. 4 (May, 1958), 316-322.

Citibank lent small sums to the deserving poor, the bank also persuaded middling and well-to-do customers to invest millions in shaky securities, including the sovereign debt of such solvent states as Bolivia, Peru, and the Weimar Republic. The stock market crash and the Pecora Hearings that followed revealed the extent of Citi and other bank's speculative chicanery, and prompted even tighter regulations on the activities of the nation's lending institutions. Indeed, the hearings on Citibank's practices, presided over by South Dakota Senator Peter Norbeck, produced almost 600 pages of damning testimony, helping facilitate the passage of for the Banking Act of 1933, the Securities Act of 1933, and the Securities Exchange Act of 1934.²⁷

Thus, in the years following World War II, bankers were eager to rebuild their collective reputation while also expanding into the burgeoning field of consumer lending. As historians Lizabeth Cohen and Louis Hyman demonstrate, consumer borrowing was the ill-fitting keystone of American economic prosperity in the postwar years, making debt a practical necessity of middle-class suburban life. Americans, emerging from the ravages of the Great Depression and the subsequent wartime privation, eagerly sought to indulge in the burgeoning mass consumption economy, while at the same time policy makers and business leaders viewed this consumption as critical to postwar prosperity. Central to these goals was the act of borrowing; whether as a mortgage for a new ranch style home, a bank or finance company loan for Mercury Monterey, or a charge account at Bloomingdale's, consumers in the postwar period relied on lending to finance their American dreams.²⁸

²⁷ Congress, Senate, *Stock Exchange Practices: Hearings Before a Subcommittee of the Committee on Banking and Currency*, Part 6, 77th Congress, 2nd Session, 21-24, 27-28 February and 1-2 March 1933 (Washington: United States Government Printing Office: 1933); Federal Reserve, Federal Reserve Archival System for Economic Research, "Stock Exchange Practices. *Hearings before the Committee on Banking and Currency Pursuant to S.Res. 84 and S.Res. 56 and S.Res. 97: 1932 – 1934*, <http://fraser.stlouisfed.org/publications/sensep/>; Zweig, *Wriston*, 41-44.

²⁸ Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in the Postwar Era* (New York: Vintage Books, 2004); Hyman, *Debtor Nation*.

Increasingly, this lending was facilitated by new card payment systems built on the credit infrastructures and practices created during the war. Though most consumers learned to use credit cards in local department stores, national card programs also emerged in the early 1950s. Beginning with Diners Club, which was joined by American Express and Carte Blanche later in the decade, these programs catered primarily to business elites, allowing cardholders to charge travel and entertainment expenses at businesses located across the country. These programs did not grant revolving credit, as department store cards did, but were instead linked to charge accounts and had to be paid off each billing cycle. While limited to an elite clientele, these more universally accepted and geographically far-reaching cards provided a model that banks would eventually emulate with their own credit card products. Further, by conferring a level of elite status, these cards emphasized the connection between cards and consumption to postwar Americans.²⁹

Thus, through the mid-1950s, the geography of consumer credit continued to be constituted primarily through personal networks of borrowing bounded by a regulatory regime premised on physical place; a stricture that held whether through a department store's Charga-Plate program or a bank's installment loan department.³⁰ The landscape changed, however, when bankers began to contemplate offering payment cards of their own – specifically universal cards that could be used to make credit purchases at a variety of retailers. The universal credit card, bankers believed, was a natural outgrowth of their core businesses: Cards let bankers sell their lending expertise to smaller, local merchants who could not afford the Charga-Plate technology but were obligated to sell on credit nonetheless. Perhaps more importantly, credit

²⁹ Hyman, *Debtor Nation*, 169-170.

³⁰ And, more broadly, the even more local and personal book credit a consumer might expect from their neighborhood butcher, tailor, or other petty merchant.

cards offered bankers a way to expand into the consumer credit market, where they had only limited reach before the war. Yet despite these seeming advantages, developing card programs posed a host of challenges to banks unaccustomed to developing the infrastructures necessary to manage card payment systems and to competing in the consumer credit field.

Charga-Plates were successful because department stores faced a high demand for credit from their customers, and these devices allowed stores to offer credit services more easily and efficiently while meeting their customers' credit demands. These retailers were in the business of selling goods, not credit, and could afford to be selective as to whom they issued cards. On the contrary, banks issuing universal credit cards had to build two markets simultaneously; on the one hand, they needed enough customers on their rolls to convince merchants that accepting the cards would be worthwhile, and on the other, they needed enough participating merchants to make their card plan attractive to potential customers. This presented a unique marketing challenge because banks had to have a critical mass of both customers and retailers to get a card program up and running.³¹

The solution bankers hit on was the large scale distribution of unsolicited cards to potential customers. To get their card programs off the ground, bankers believed, they needed to build their market from the bottom up, enlisting card-carrying consumers as advocates in an effort to draw reluctant retailers into their system. As American Banking Association representative Thomas L. Bailey testified to a congressional committee, "A large number of credit card holders is a vital prerequisite for making the plan attractive to participating retailers and other suppliers of goods and services." In adopting this method, bankers stripped away an

³¹ While travel and entertainment cards – Diners Club, Carte Blanche, American Express – operated on a similar model, their primary market initially was traveling businessmen, and their promotions were geared toward corporate clients, trade publications, and affluent travelers. Further, these firms were not selling debt; accounts with these firms had to be settled by the end of the month.

element of the personal interactions on which consumer credit had been built, deciding instead to deliver credit impersonally through the mail.³²

The first bank to employ this strategy was California's Bank of America (BOA), which launched its BankAmericard program in September 1958. Starting with a test market in Fresno, the bank enlisted over three hundred local retailers before mailing credit cards to every BOA customer in the area, over 60,000 in all. Initially, the mass-mailing approach had the desired effect, and over the next five months the number of small businesses accepting the BankAmericard tripled. Based on these promising results, and the fear that competitors might beat them to other key markets, the bank's managing committee moved to rapidly implement the program on a statewide basis. Building off an extensive network of local branches, Bank of America was able to claim at the end of 1959 that "Nearly two million California families hold our BANKAMERICARD, which is honored by more than 25,000 merchants and professional members."³³

However, while the mass-distribution strategy was successful at recruiting some customers and merchants into the program, it also generated resistance from consumers who were less eager to accept these new laminated liabilities. In early 1960, *Consumer Reports* magazine criticized Bank of America, "which appears to lead in the sales-persuasion chants in praise of debt," and a letter sent to the same publication termed the BankAmericard an

³² Thomas L. Bailey, "Statement," in Congress, Senate, *Bank Credit-Card and Check-Credit Plans: Hearings Before the Subcommittee on Financial Institutions or the Committee of Senate Banking and Currency*, 90th Congress, 2nd Session, 9-10 October 1968, 24; For a history of the postal service as an agent of state formation and information exchange, see: Richard John, *Spreading the News: The American Postal System From Franklin to Morse* (Cambridge: Harvard University Press, 1995).

³³ Timothy Wolters, "Carry Your Credit in Your Pocket": The Early History of the Credit Card at Bank of America and Chase Manhattan," *Enterprise & Society* (June 2000), 324 – 333. Quote from 333. BOA was not the first universal bank credit card, however, suggesting that mass mailing was not the only option for building the necessary economies of scale. As Louis Hyman points out, a number of independent card programs sprung up during the 1950s in response to the success of department store card plans. Still, Hyman argues that "bank cards remained novelties, confined to particularly local areas," which ignores the geographic and numeric reach of the BankAmericard. Hyman, *Debtor Nation*, 145-148.

“Unrequested responsibility.” This antagonism was problematic for the bank, especially when considered next to the large financial losses the BankAmericard created. First, Bank of America was unable to sign up large retailers who already had their own credit departments, disdained the bank’s high discount fees, and feared the loss of their customer base, denying BOA access to key points of high dollar consumption. This failure was compounded by an excessive rate of fraudulent usage, which pushed delinquencies to five times the levels the bank had anticipated. As a result, BOA reported a nearly \$9 million loss for 1960 alone. Though Bank of America stuck with their card, reaching profitability by 1962 and maintaining it through the decade, these initial losses, when coupled with the failure of Chase Manhattan’s “Charge Plan” in 1962, caused other large banks to steer clear of the credit card game for nearly a decade.³⁴

Quietly, though, Bank of America did make quite a bit of money in the credit-card business, and as other bankers caught on, or simultaneously coveted the high volume of credit being extended in the retail trade, the industry’s aversion to credit cards began to dissipate. In 1966, eager to capitalize on their success in California, BOA set out to license the BankAmericard brand to other banks across the country. The system BOA devised, termed a national interchange, allowed member banks to issue cards and sign up merchants under the BankAmericard umbrella, enabling BankAmericard-holders to purchase goods nationwide at any retail location within the BankAmericard network. In theory, the process worked as follows: Once a consumer proffered a BankAmericard to make a purchase, the merchant would forward the sales draft to its bank for immediate payment. The merchant’s bank then paid the merchant for the goods the customer purchased, less a small percentage termed the merchant discount, and

³⁴ “There Ought to be a Law...,” *Consumer Reports*, January 1960, 44; P.K.B., “Unrequested Responsibility,” *Consumer Reports*, January 1960, 53; Wolters, “Carry Your Credit in Your Pocket,” 333-336, 348; Mandell, *Credit Card Industry*, 30.

sent the sales draft on to the consumer's bank. Next, the consumer's bank repaid the merchant's bank and billed the consumer for the goods purchased. This process, now smoothed by massive computer systems, was largely conducted by phone and mail, often taking more than a month to translate the purchase into a final bill. Still, this was a revolutionary system, and in an effort to counter BOA's move other banks formed their own national interchanges, most notably the Interbank Card Association, which would eventually consolidate several smaller interchanges and issue cards under the name Master Charge. Citibank, too, joined the fray, and after an aborted attempt to purchase the Carte Blanche card program from Hilton Hotels, introduced their "Everything" card in August of 1967 as an answer to BankAmericard and Master Charge.³⁵

Much of Bank of America's success was predicated on its large network of local branches spread across the state of California. By mailing cards only to its existing customers, of which there were millions, BOA leveraged the useful aspects of its local banking relationships while bringing retailers across the nation's most populous state into its orbit. In this case, BOA benefited from California's liberal banking laws, which gave the bank a large geographic territory on which to build its card program. This circumstance ensured customers would identify their BankAmericards with their local bank, even if it was one branch in a statewide network. The national interchange system, hypothetically, could take this process one step further, allowing banks in different states to combine their branch networks, nationalizing their local credit relationships under the banners of BankAmericard or Master Charge while generating increased credit volume from consumer purchases. Promoting this vision, an Interbank advertisement proclaimed to bank executives, "Your bank's charge card can go

³⁵ Roger J. Abouchar, "Bank Charge Cards in the 1970s: A Look at their Hectic Past and Promising Future," *Banking*, 15 October 1969, 34; Mandell, *Credit Card Industry*, 31; William B. Stevens, "The Expanding Role of Bank Charge Card Associations," *Banking*, 15 November 1969, 47-48, 88, 90; Zweig, *Wriston*, 229-230.

national, right now!,” “opening,” as Interbank president Edward Bontems noted in a later article in the same publication, “a whole new world of charge locations.”³⁶

Bankers eagerly entered the market. According to data compiled by the Federal Reserve, by the end of September, 1967, 197 banks held outstanding credit-card receivables, more than half of which had begun card plans after January 1, 1966. By June, 1968, the number was 416. Further, because of the way the national interchanges were structured, these figures only included the banks carrying the credit. Larger Class A banks issued credit cards and held outstanding credit card receivables, while smaller, Class B banks signed up merchants and solicited customers, collecting a small interchange fee made on each purchase for their trouble. Consequently, “the total of participating banks,” one industry article noted in late 1969, “will most certainly exceed 5,000.”³⁷

The confluence of the new participants into the market pressured all players to build market share, and banks again resorted to the mass distribution of cards as a means to compel customers and merchants to join the system. In some cases, banks exerted significant effort to undertake mass distribution as prudently as possible, employing their accumulated local knowledge to ensure the pragmatic placement of plastic into consumers’ hands. In 1967, Citibank, still a relatively small player in the market, mailed one million of its “Everything” cards to potential customers culled from its installment lending database. In this instance, Citi used data collected over almost forty years of local lending to carefully choose its targets, promising them “We’re giving you ‘Everything,’ and it costs you nothing.” But where Citi was

³⁶ Advertisement, Interbank, “Your Bank’s Charge Card Can Go National, Right Now!,” *Bankers Monthly*, 15 May 1968, 17; Edward Bontems, “The Story of Interbank,” *Bankers Monthly*, 15 July 1968, 39.

³⁷ “Credit-Card Plans in Banks,” *Banking*, 15 September 1968, 36; Andrew F. Brimmer, “Statement of Andrew F. Brimmer, Member, Board of Governors, Federal Reserve System,” in Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 2; Roger J. Abouchar, “Bank Charge Cards in the 1970s: A Look at their Hectic Past and Promising Future,” *Banking*, 15 October 1969, 78.

prudent in its distribution, if provocative in its solicitation, other banks discarded any pretence of judicious dispersal. A federal bankruptcy referee recalled of the First Wisconsin National Bank's mass mailing: "it seemed as if the entire eastern third, or perhaps half, of Wisconsin was saturated with these unsolicited credit cards," and "Since that time" he had "repeatedly found these cards listed...in many of the bankruptcy schedules."³⁸

In Chicago, several banks formed a cooperative interchange, the Midwestern Bank Card Association, to perform the same functions as BankAmericard's national interchange, but on a regional level. In their rush to corner the lucrative Illinois suburbs, though, the ostensibly cooperating banks fought to out-solicit each other, mailing over 5 million cards in just a few months. One resident reported receiving 18 credit cards, including one for each of his adolescent sons. A number of deceased people even got cards, reviving their purchasing power, if not their corpses. Indeed, the First National Bank of Chicago even staged a parade to promote their cards and paid young women to pass out applications to passersby. All told, over four years time, banks would mail out over 100 million unsolicited cards to consumers across the nation. As Joseph Nocera, a credit commentator, would later write, "It would always seem as though those first hundred million credit cards had simply fallen from the sky."³⁹

In reality, though, those first hundred million cards descended from a calculated strategy adopted by bankers to place cards in the hands of as many consumers as possible. Despite questionable distribution, bankers maintained that bank credit cards were a socially valuable

³⁸ H. Erich Heinemann, "Credit Cards: Instant Affluence Is on Rise," *NYT*, 1 August 1967, pg. 41; Letter, D. E. Intenfeldt to Jackson E. Royal, in Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 44.

³⁹ Joseph Nocera, *A Piece of the Action: How the Middle Class Joined the Money Class* (New York: Simon & Schuster, 1994), 15, 57-59; Betty Furness, quoted in Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 65; Paul O'Neil, "A Little Gift from Your Friendly Banker," *Life*, 27 March 1970, reprinted in PBS, *Frontline*, "Secret History of the Credit Card," <http://www.pbs.org/wgbh/pages/frontline/shows/credit/interviews/wriston.html>.

product, one justified by their unique relationships to businesses and consumers in their communities. In a congressional hearing on the subject of bank credit card plans, American Banking Association representative Thomas L. Bailey argued that “banks should be encouraged to develop new methods of serving the credit needs of their communities.” Key to this development was mass distribution, because, as Bailey argued further, “To deny banks without credit card plans the privilege of issuing cards unless requested would completely limit this business – which is a most natural one for banks.” It was, therefore, in the public’s interest to allow banks to build their credit card businesses in the way they saw fit, and for consumers to receive credit through the mail. This notion was seconded by the Federal Reserve, whose representative sympathized with the bankers, telling the panel, “banks have found that the most effective way of starting a new credit plan is to mail a large amount of unsolicited cards.” Faced with such seemingly iron-clad logic, Senator William Proxmire, who chaired the panel, disagreed, stating emphatically, “The public does not owe any card issuer an instantly profitable plan.”⁴⁰

What Proxmire knew, and what the bankers were less ready to admit, was that the problems that had plagued Bank of America in the late 1950s had rapidly reemerged on an exponentially larger scale. As the *Christian Science Monitor* reported, “So explosive and so uninhibited has been the growth of bank credit-card plans recently that banking regulators, congressmen – and more than a few bankers – are showing concern.” First, because banks had yet to pioneer any significant theft deterrent systems, the mass distribution strategy opened up banks and their consumers to large losses from licentious users. The cards bankers mailed did

⁴⁰ Thomas L. Bailey, “Statement,” Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 24; Andrew F. Brimmer, “Statement,” in Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 3; William Proxmire, “Consumer Credit Legislation: The Future,” *Banking*, 15 April 1969, 108.

not require activation upon receipt using personal and private information as cards do today; they were live, ready to be used by whoever opened the envelope. Unsurprisingly, mail fraud was rife. In 1964, before the mass mailings began, the United States Postal Service investigated only 15 cases of credit-card fraud; in December 1970 however, assistant chief postal chief Charles Miller reported to bankers that “In fiscal 1970, 754 mail fraud investigations surrounding credit cards were completed (and 1048 additional investigations are underway now).” Indeed, even organized crime got into the act, and according to various sources, a stolen card could bring between anywhere from \$25 to \$500 on the black market.⁴¹

Much of this theft and fraud resulted from general carelessness on the part of bankers, who had little experience in this type of marketing, a problem that also afflicted their selection of card recipients. As noted previously, some banks relied on internal databases or fledgling credit bureaus to carefully screen card recipients before mailing. Other issuers purchased lists of “preferred customers” from smaller Class B banks as a way to utilize these institutions’ local knowledge in communities where the larger banks did not operate. For example, when the First National Bank of Omaha sought to solicit customers in neighboring Iowa, the bank purchased such lists before beginning distribution. Statistically, though, these shrewd banks were in the minority, and the methods employed by the infamous Chicago banks were more the rule than the exception. Citing a recent report by the American Bankers Association, Betty Furness, Special Assistant for Consumer Affairs under President Johnson, contended that “about half of all new credit card offerings were being made without prior credit check.” This, though, was an internal industry estimate, and outside observers put the total of unscreened card recipients as high as

⁴¹ Philip W. McKinsey, “Officials Concerned Credit-Card Boom: Banks Cautioned,” *Christian Science Monitor*, 1 September 1967, 7; Charles Miller, quoted in John Kirk, “Losses Are Still in the Cards for Bankers!,” *Banking*, 15 December 1970, 84; David Nagy, “Credit card Fraud Loss Is Booming: Mafia Becoming Involved,” *Washington Post* (Hereafter *WP*), 26 November 1976, F.3; Liz Roman Gallese, “Buy Now, Pay Never: Theft of credit cards Jumps Rapidly, Posing Big Problems for Firms,” *Wall Street Journal* (Hereafter *WSJ*), 18 November 1970, 1, 33.

four fifths. “In the frenzy of competition,” Furness stated, “traditional prudence seems to have been tossed aside.”⁴²

While the statistics are telling, the mood mass mailing engendered was perhaps best captured by *Life* magazine columnist Paul O’Neil in his March 1970 article, “A Little Gift from Your Friendly Banker.” Banks undertook credit card distribution, O’Neil wrote, “in many cases, with a kind of eager innocence which none of them would have countenanced for a moment in firms with which they did business; a few of them, caught up in the excitement of the unfamiliar chase, seem to have become as blithely careless of consequences as a drunken sailor shooting craps in a Mexican whorehouse on New Year’s Eve.” Overly vituperative, O’Neil’s characterization still highlighted the moral concern many felt about traditionally austere banks pushing credit on consumers and called into question whether the credit-card business really was “a most natural one for banks.” Some bankers agreed; as a “New York Banker” told the readers of *Rotalight*, a publication for the Rotary International service club, “Mass sending of cards is wrong,” adding, “It is wrong by every code of banking ethics, and it is wrong by every standard of good banking practice.”⁴³

Fittingly, while criminals and spendthrifts were eager to get their hands on bank credit cards, consumers were much more ambivalent. As little plastic pieces of unsecured consumer credit made their way into mailboxes and living rooms across the country, many Americans were confronted with buying and borrowing in spaces unaccustomed to that purpose. True to bankers’ hopes, many consumers accepted the cards, and used them; the Federal Reserve estimated that

⁴² *Fred Fisher v. First National Bank of Omaha*, *Federal Reporter*, 2nd Series vol. 548 (St. Paul, Minn.: West Publishing Co., 1977), 256; Betty Furness, Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 64-65; Paul O’Neil, “A Little Gift from Your Friendly Banker,” *Life*, 27 March 1970.

⁴³ Paul O’Neil, “A Little Gift from Your Friendly Banker,” *Life*, 27 March 1970; “A Banker Demurs,” *Rotalight* Vol. 38, No. 47 (19 May 1967), Marietta, GA, 2.

outstanding credit linked to bank credit-card plans increased 50 percent in the nine months from September 1967 to June 1968. But many more were offended by the appearance of bank credit cards in their homes. According to a study conducted by the Foundation of Full Service Banks and published in the magazine *Banking*, “over half of the respondents reported that they resented receiving unsolicited cards,” while “only 20% welcomed receiving them.” Further, in December 1969, Paul Rand Dixon, chairman of the Federal Trade Commission, reported that his agency had received over 1,000 letters protesting large-scale credit card mailings. Some consumers even mailed their cards back to the issuing banks, sending a clear message that their credit cards were unwelcome guests.⁴⁴

To some, this mass mailing of credit amounted to an invasion of privacy, a cross-border incursion over the invisible barriers that in postwar America shielded the home from the outside world. Betty Furness testified to a Senate committee that she was “greatly troubled with the ethics of forcing unsolicited and unwanted credit cards into the consumer’s home.” Building on this concern, Senator Proxmire suggested that credit cards mailed out in this fashion had the potential to disrupt the power dynamics of the postwar family. As the Senator conjectured, “Suppose a bank sends an unsolicited card to a man’s wife or teenage daughter or teenage son, this puts the man somewhat on the spot if he does not want his wife or his child to have the card.” Raising similar fears, Art Buchwald of the *Washington Post* offered, “It isn’t just the spectre [sic] of a wife or teen-ager receiving a credit card and going berserk that bothers most American breadwinners,” instead, “It’s the principal of the thing and where will it all end? What

⁴⁴ Andrew F. Brimmer, “Statement,” Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 3, 9; Louis Harris, quoted in John Kirk, “Losses Are Still in the cards for Bankers!,” *Banking*, 12 December 1970, 85; “Credit Craze? Senators Push for Action to Tighten Credit-Card Controls,” *Christian Science Monitor*, 16 December 1969, 7.

is to prevent a company that sends unsolicited credit cards to your home from sending merchandise instead?”⁴⁵

Written in a sarcastic tone, Buchwald’s musings nonetheless capture the very real concern consumers and lawmakers alike felt about the invasiveness of bank card marketing – Buchwald’s article, in fact, was reprinted twice in the *Congressional Record* – and suggest a wide public discomfort with the spatial transformations wrought by the mass distribution of bank credit cards in the late 1960s. Unsolicited mailings divorced consumer borrowing from the site and act of consumption; to receive credit, consumers no longer had to endure an interview with a credit manager, “something,” as the magazine *Bankers Monthly* wryly characterized it, “akin to a prisoner-of-war interrogation.” Credit now came in the mail. While beneficial to guttersnipes and mafia dons, this transformation in the geography of consumer credit proved troubling to consumers and lawmakers alike. Although some banks, like Citi, combined aspects of older, localized installment relationships with the new, unsolicited credit cards, others, like the infamous Chicago banks, discarded these conventions in the effort to open and exploit new markets. And though the credit card business may have seemed a “most natural” one for bankers, the marketing tactics they employed forced consumers onto a new and unfamiliar terrain.⁴⁶

⁴⁵ Betty Furness, Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 64; William Proxmire, Congress, Senate, *Bank Credit-Card and Check-Credit Plans*, 90th Congress, 2nd Session, 9-10 October 1968, 68; Art Buchwald, “Credit Pushers Vex Breadwinner,” *WP*, 18 September 1969, A19. The most comprehensive account of postwar domestic life remains Elaine Tyler May’s *Homeward Bound: American Families in the Cold War Era* (New York: Basic Books, 1988).

⁴⁶ Congress, House, “Unsolicited Credit Cards,” *Congressional Record*, 91st Cong., 1st Sess. (18 September 1969), 26219; Congress, House, “Nix Challenges Mailers of ‘Junk Credit,’” *Congressional Record*, 91st Cong., 1st Sess. (19 September 1969), 26392; Walter R. Miller, Jr., “Challenge of Change in Consumer Credit,” *Bankers Monthly*, 15 June 1968, 19.

Eventually, the escalating disquiet prompted lawmakers in Congress to act, and in the year 1969 alone congressional legislators introduced sixteen separate bills to outlaw the practice of unsolicited mailings. While Congress would not formally enact such legislation for another year, the public unpalatability of unsolicited mailings mixed with deeper currents of concern about the role of credit in the postwar economy, and members of congress who harbored such anxieties looked for other ways to impose order on the chaotic actions of the nation's banks. One such imposition was the Credit Control Act of 1969 (CCA), an act that emerged concurrently to the unsolicited-mailing outrage, and that was connected to the issue through its sponsors and advocates in the House and Senate. Senator William Proxmire, along with Representatives Leonor Sullivan and Wright Patman, assumed prominent roles steering the CCA and the mass-mailing ban through congress, seeing both measures as complimentary tools in their broader effort to preserve equity in the face of inflation and imbalances in market power.⁴⁷

In a roundabout way, though, the CCA owed its opportunity for existence first to a phenomenon known as disintermediation, a term that described the reinvestment by individuals of their savings from banks and savings and loan institutions into higher yield financial instruments, whether higher paying accounts at other banks or in bonds, certificates of deposit, or other securities. This removal of funds was called disintermediation because banks were, and are, intermediaries in the loan process, receiving deposits on one end and loaning them out on the other. The term came into vogue in 1966, when investors, responding to a money crunch that sent interest rates rising, triggered this process on a large scale. As money flowed out of banks, particularly local community banks that could not afford to raise rates, mortgage loans and other types of lending dried up, and with them so did housing construction and other economic

⁴⁷ Congress, *Index to the Congressional Record* 115, Part 31, 307.

activities. To counteract this process, banks that could increase the interest they paid depositors initiated a “rate war,” as one Representative phrased it, which pushed some institutions in untenable financial positions.⁴⁸

Consequently, Congress authorized the Federal Reserve to regulate the interest banks and other financial institutions paid on deposits in an attempt to curtail this practice. The regulation, termed Regulation Q by the financial industry, re-enabled small banking firms to compete for depositors with their larger competitors, preserving the main source of capital for thousands of community banks. Naturally, this leveling annoyed larger banks – “Disintermediation,” Citibank chairman Walter Wriston often quipped, “sounds like something you should do in the bathroom” – but most politicians and economists agreed the regulation was necessary to maintain the integrity of the country’s dual-banking system. The regulation, though, was initially conceived as a short term measure, set to expire once the pressures causing disintermediation had run their course. Yet, by 1969, with Regulation Q set to phase out, Congressmen on both sides of the aisle believed the authority was still necessary to prevent, in the words of Senator Bill Brock (R-TN), “a collapse in many segments of our financial institutions.”⁴⁹

In addition to this concern, the late 1960s also witnessed the steady escalation of inflationary pressure, a condition members of congress believed would be aggravated if interest rates were allowed to rise. As a result, the quest to quell disintermediation quickly became enmeshed in the larger problem of inflation, and the bill to extend Regulation Q soon was

⁴⁸ “Outflow of Savings At Year-End Termed Below Expectations,” *WSJ* (5 January 1968), 12; Joseph R. Slevin, “Government Is Hoping First-of-Year Deposit Withdrawals Won’t Be Heavy,” *WP* (31 December 1967), E8; Rep. William Brock, in Congress, House, “Lower Interest Rates, Fight Inflation, Help housing, Small business, and Employment,” 91st Cong., 1st Sess., *Congressional Record*, (17 December 1969), 39671. While the term disintermediation originated in banking, it is now much more common, and its usage has expanded to include the removal of any middleman or intermediary, especially within the context of internet marketing.

⁴⁹ Zweig, *Wriston*, 463; Rep. William Brock in Congress, House, “Lower Interest rates, Fight Inflation, Help housing, Small business, and Employment,” 91st Cong., 1st Sess., *Congressional Record* (17 December 1969), 39671.

transformed into an omnibus package of inflation fighting measures with the well-meaning but cumbersome title: “A Bill to Lower Interest Rates, Fight Inflation, Help Housing, Small Business, and Employment.” Like its name, the bill contained a hodge-podge of objectives, including, in addition to the Regulation Q extension, a reduction in the insurance premiums for federal savings and loan insurance, a \$70 million increase in Small Business Administration lending, along with the Credit Control Act of 1969. The CCA was the most dramatic of these additions, granting the president unprecedented power: “Whenever the President determines that such action is necessary or appropriate for the purpose of preventing or controlling inflation generated by the extension of credit,” the act read, “the President may authorize the Board [of Governors of the Federal Reserve] to regulate and control any or all extensions of credit.”⁵⁰

Republican politicians, led by President Nixon, were incensed at the Democratic attempt to hijack the seemingly simple Regulation Q extension, and GOP lawmakers fought adamantly to discredit and defeat these unwanted additions. Summing up collective Republican resentment, Representative Benjamin Blackburn (R-GA) objected, “If we are going to pass this legislation because of the very appealing label it bears, then any one of us could introduce legislation and put a title on it and say it is a Law To Improve Love and Happiness Throughout the Land. In the process of passing such a bill,” Blackburn continued, “we could authorize the Federal Government to manufacture LSD and pot and a few other things and distribute it free [*sic*].” Unfortunately for Blackburn, Democrats held firm majorities in both houses of Congress, and were able to attach these amendments over Republican objections.⁵¹

⁵⁰ Richard Nixon, “Statement on Signing a Bill Affecting Interest, Credit, and Lending,” *American Presidency Project*, 24 December 1969; Congress, House, “Lower Interest rates, Fight Inflation, Help Housing, Small business, and Employment,” 91st Cong., 1st Sess., *Congressional Record* (17 December 1969), 39700.

⁵¹ Rep. Benjamin Blackburn, Congress, House, “Lower Interest rates, Fight Inflation, Help housing, Small business, and Employment,” 91st Cong., 1st Sess., *Congressional Record* (17 December 1969), 39673.

Thus, although Republicans sought to trivialize the CCA while pushing through Regulation Q, Democrats viewed both measures as complementary components in their efforts to mediate between inflation, rising interest rates, and market power in the broader economy. In this effort, Congress members William Proxmire (D-WI), Wright Patman (D-TX), and Leonor Sullivan saw in credit controls the opportunity to redirect credit to sectors most damaged by the pressures of inflation and least able to absorb higher interest rates. One area, as Patman pointed out, was housing:

"This bill we are considering today is for housing. Today, in the present market, those who are rich and affluent are getting their houses constructed. They have no trouble. They can pay the prices for the \$50,000, \$75,000, and \$100,000 houses being built now. There is no letup in that type of construction. But what about the person who receives \$13,000 or less today in salary? He cannot even qualify for a construction loan. He is out of the market."

This market exclusion, in Proxmire's view, was not limited to the low-income home buyer, but reached across the economy as wealthy and powerful interests leveraged their market power to obtain credit at the expense of the public welfare. "Why," Proxmire asked, "should we be building fancy resort hotels and cutting back on schools? Why should we be financing conglomerate mergers and starving the home building industry?" and "Why," he concluded, "should we be feeding an unsustainable corporate investment boom and squeezing the small business man?" In this sense, the ability of large firms to exercise undue control over credit markets troubled Democratic congressmen who believed that such power undermined the ideals of economic democracy and entrepreneurship that formed the foundation of the American economy.⁵²

⁵² Rep. Wright Patman, Congress, House, "Lower Interest Rates, Fight Inflation, Help housing, Small business, and Employment," 91st Cong., 1st Sess., *Congressional Record* (17 December 1969), 39700; Sen. William Proxmire, Congress, Senate, "Provision of Additional Mortgage Credit," 91st Cong., 1st Sess., *Congressional Record* (12 November 1969), 33930.

In their view, credit controls could address one aspect of this problem, while the mass-mailing ban could address another. To their thinking, if inflation forced firms to pay more for access to bank credit, the mass-mailing of bank credit cards coerced these enterprises into accepting cards, and with them bank fees tied to each consumer credit purchase. This was precisely the intention of card-issuing banks; they hoped that by mailing cards to consumers in a specific geographic area, that merchants there would feel pressure to accept cards out of fear of losing business. This tactic, as one representative argued, made bank credit-cards a “monopoly device,” which forced businesses into partnership with the credit-card firms, and ensured they would pay the fees associated with accepting credit-card purchases. In this way, small business owners were squeezed between high interest rates for business loans on one end, and high merchant discount fees from credit-card purchases on the other, forcing them to pay increasingly powerful banks more both to stock their shelves and sell their goods.⁵³

While the Democratic legislators hoped the CCA and an unsolicited mailing ban could correct such market power imbalances, they also contended that such legislation could be used to combat inflation, specifically by constraining consumer credit. The CCA, argued its principal sponsor Leonor Sullivan (D-MO), could be used to implement controls similar to those employed during the Second World War, which raised down payments and shortened repayment periods on consumer credit purchases, tempering the consumer buying behavior that she believed was putting upward pressure on prices. Championing this idea, Sullivan contended, “I am sure most Americans would be willing to forego or postpone some unnecessary purchases for the time being – rather than having their employment wiped out by a recession coming on the heels of

⁵³ Rep. Arnold Olsen, Congress, House, “Regulation of Credit Card Mailings,” 91st Cong., 2nd Sess., *Congressional Record* (9 September 1970), 30878.

rampant inflation." Like Irving Bacheller and the proponents of Regulation W decades before, Sullivan viewed consumer credit as an inflationary force.⁵⁴

Similarly, concerns about inflation permeated the mass-mailing debate. Upon concluding his second round of hearings on unsolicited card mailings in December 1969 – mere days before the CCA was passed – Senator Proxmire expressed his outrage at the inflationary behavior of card-issuing banks. “It is ironic,” the Senator inveighed, “that in these inflationary times commercial banks continue to send out still more credit cards urging the consumer to buy more at a time of 18 percent-a-year interest.” To combat this seeming hubris, Proxmire urged his fellow members of Congress to “bring unsolicited credit cards under control,” but there was insufficient time in the 1969 congressional session to take up the matter.⁵⁵

In the case of the CCA, Democrats’ concerns were largely dismissed by Republicans who instead sought to focus the argument back on Nixon’s own efforts to fight inflation using the traditional weapons of Keynesian monetary and fiscal policy. Credit controls, Republicans argued, would ultimately serve as a distraction from these policies. As Senator Charles Percy (R-IL) noted, “the authority to impose selective controls could well contribute to damaging such policies by casting skepticism on the administration's current anti-inflation fight.” Further, the sweeping authority granted by the bill alarmed congressmen on both sides of the aisle who expressed fear about granting the president authoritarian power over the economy. Argued one Democratic congressman from New York, “Did the rules committee consider the enormous power that it granted the President under this bill...Does the gentleman think the President should

⁵⁴ Rep. Leonor Sullivan, Congress, House, “Congresswoman Sullivan Introduces Bill for Standby Powers to Regulate All Forms of Credit, Including Business Credit,” 91st Cong., 1st Sess., *Congressional Record* (11 November 1969), 35615. While economists, especially those of a monetary bent, might argue that only the overall money supply effects inflation, it is more important here and elsewhere that politicians *believed* consumer credit to be inflationary.

⁵⁵ William Proxmire, quoted in “Credit Craze? Senators Push for Action to Tighten Credit-Card Controls,” *Christian Science Monitor*, 16 December 1969, 7.

have that power?” Representative Sullivan, though, would have none of this argument, and countered by firmly stating, “the president of the United States carries around with him at all times a little black box which he alone, and no one else, may activate to blow up half the world...we trust him with that power.”⁵⁶

And so too did Congress entrust Nixon with the CCA, and with it power to blow up the economy, or at least half of it anyway. Thus, Nixon reluctantly signed “A Bill to Lower Interest Rates, Fight Inflation, Help Housing, Small Business, and Employment” on December 24, 1969. Eventually, the Federal Trade Commission would ban the mass mailing of credit cards in May 1970, an act given the force of law by President Nixon in October of that year.⁵⁷ Though bankers fought this action, in the long run, the ban granted them a needed reprieve from their own mass-mailing excesses, setting the stage for a period of consolidation and reconfiguration of the bank credit card industry that would continue through the mid-1970s. And while there was strong pressure for Nixon to use the CCA once the bill was passed, the cessation of mass-mailing and the eventual reduction in inflation, due in part to mandatory wage price controls, pushed the act into a silent slumber, only to be reawakened by Jimmy Carter the following decade.

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Henry M. Dawes, Comptroller of the Currency from 1923-1924 and principal author of the McFadden Act, a key legislative barrier to national bank expansion from its passage in 1927 until the late 1970s, was a firm believer in a system of small, individual banks focused on meeting the specific needs of their communities. “The unit banker, Dawes wrote, “is the personal

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<sup>56</sup> Sen. Charles Percy, Congress, House, “Deposit Rates and Mortgage Credit,” 91<sup>st</sup> Cong., 1<sup>st</sup> Sess., *Congressional Record* (13 November 1969), 44019; Rep. Emmanuel Celler, Congress, House, “Lower Interest rates, Fight Inflation, Help housing, Small business, and Employment,” 91<sup>st</sup> Cong., 1<sup>st</sup> Sess., *Congressional Record* (17 December 1969), 39661; Rep. Leonor Sullivan, Congress, House, “Lower Interest rates, Fight Inflation, Help housing, Small business, and Employment,” 91<sup>st</sup> Cong., 1<sup>st</sup> Sess., *Congressional Record* (17 December 1969), 39673.

<sup>57</sup> Mandell, *The Credit Card Industry: A History*, 34; “Foreign Accounts Curb Is Signed by President,” *NYT*, 27 October 1970, 28.

acquaintance and friend of the man who makes the loan. He is familiar not only with the details of his business, but he knows his character, experience, and ability.”<sup>58</sup> When Dawes constructed the McFadden Act in the 1924, he had a number of goals, the most pressing of which was to keep the Federal Reserve System operational. But he also hoped to preserve the unit banker, and with him the intimate ties of finance and obligation that bound such bankers to the economic constituents they served.

Banks’ entrance into the credit-card field began the erosion of these ties. While some banks built on established relationships and local knowledge to build their card businesses, others, to paraphrase Betty Furness, tossed traditional prudence aside and blanketed their hinterlands with plastic purchasing power. Though the latter practice drew the most consumer and legislative ire, in either case credit now came to consumers in the mail, absent the personal interactions previously necessary for obtaining consumer credit. As the calendar turned to the 1970s, Dawes’s preference for personal interaction was fading in an industry enamored of new credit technologies and longing to escape the bounds of the McFadden Act’s regulatory restrictions. The credit card was the chief incarnation of this desire and in the late 1970s would remap the banking geographies Dawes had helped to draw.

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<sup>58</sup> Henry M. Dawes, “In Defense of Unit Banking,” in Virgil Willit, ed., *Selected Articles on Chain, Group and Branch Banking* (New York: The H. W. Wilson Co., 1930), 254.



## CHAPTER 3

### A CRISIS AND AN OPPORTUNITY

On April 26, 1980, Jimmy Carter wrote a congratulatory letter to Walter Wriston, thanking him for his support on important piece of legislation, the Depository Institutions Deregulation and Monetary Decontrol Act (DIDMDA), which Carter had signed into law the previous month. A landmark banking bill, the DIDMDA's passage represented a major victory in Carter's efforts toward deregulating key sectors of the economy, equal to, if less commonly cited than the reforms in the airline and long-haul trucking industries. Like its name, the DIDMDA was long and complex: First, the act called for a gradual phase out of Regulation Q, which had allowed the Federal Reserve to place regulatory limits on the interest banks could pay depositors. Second, in an effort to persuade member banks to remain in the Federal Reserve System, the DIDMDA lowered reserve requirements for deposit institutions, which both enabled them to lend more and served as a form of tax break, since money on reserve at the Fed earned no interest. Additionally, the act substantially increased the deposit insurance ceiling, the amount that the Federal Depository Insurance Commission would protect from loss, from \$40,000 to \$100,000, as well as making a number of other changes to national banking law. In his letter, Carter praised Wriston for "creating a climate which made the bill possible," adding, "For years, you have been a leading spokesman for the need to provide a fair return to the small saver, achieve competitive equality and reform our financial system."<sup>1</sup>

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<sup>1</sup> Jimmy Carter, quoted in Philip Zweig, *Wriston: Walter Wriston, Citibank and the Rise and Fall of American Financial Supremacy* (New York: Crown Publishers, 1995), 685.

Walter Wriston, though, was not positioned on an important congressional committee or a member of the president's circle of economic advisors; instead, Wriston was Chairman and Chief Executive Officer of Citibank, the United State's second largest commercial bank. In this capacity, Wriston outspokenly assaulted regulation in all forms, while instilling in his institution an anti-regulatory zeal that pushed Citi executives to actively find and exploit any regulatory loophole available. Over his long career, Wriston employed the bank's power to propagate his neoliberal, deregulatory philosophy, and in turn, his bank reaped the rewards, as disintegrating regulation allowed Citi to flex its market muscle and expand to unprecedented size. For his efforts to "create a climate which made the [DIDMDA] possible" Wriston received what was likely a very nice commemorative pen; Citi, on the other hand, got a huge tax break.

Though Carter and Wriston's interests aligned on the DIDMDA, their views diverged elsewhere, specifically on the changing place of credit cards in American society. Wriston was a credit-card evangelist, envisioning a future of credit democratization in which cards served as mobile micro-banks for the worlds' consumers and entrepreneurs. Carter, on the other hand, subscribed to an old-time religion, seeing cards as facilitators of indulgence and debt, false idols in an increasingly idolatrous nation. During the late 1970s, then, Wriston and Carter worked at cross purposes, the former spreading the credit gospel through the aggressive cards solicitation activities of his bank, the latter desperately trying to bring Americans back into the flock of thrift and financial responsibility. In the end, their efforts for and against the emerging credit-card economy would have starkly different results for both men, symbolic of the changing politics and economy of consumer credit in the United States.

Throughout his presidency, Carter and his economic staff battled the dual forces of inflation and unemployment, a challenge exacerbated by a new phase of credit-card solicitation

begun by Citibank in 1977. In an effort to build a national network of card customers, Citi mailed 20 million pre-approved applications to potential clients in 35 states, skirting the mass-mailing ban while blanketing the nation in newly minted plastic. This move raised the ire of other bankers who felt it took “a lot of arrogance” for Citi to “assume it can sweep across the country without any regard for the overall market,” as well as Carter’s staff, who feared the effects this credit card “blitz” might have on inflation. In response, the White House began examining the Credit Control Act of 1969, a piece of legislation that gave the president, in conjunction with the Federal Reserve, almost unlimited power to regulate credit in the economy. As the administration moved forward with its credit control plan, however, changes in monetary policy, ushered in by recently appointed Fed chairman Paul Volcker, pushed Citi to look farther afield, initiating a move that would redraw the geography of consumer credit in the months and years to come.<sup>2</sup>

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Jimmy Carter brought to the presidency a unique blend of southern political tradition rooted in his rural upbringing and fostered through a varied career as naval officer, small town businessman, state senator, Baptist missionary, and state governor. He combined, as one chronicler argues, time-honored southern values of extended family and a sense of place, New South themes of modernization and industry, and “populist” concerns for the poor and underprivileged into a unifying leadership style which appealed first to the Georgian and then to the national electorate. As Georgia’s governor from 1971 to 1975, Carter sought to reorganize state government to improve both its operation and cost effectiveness, while simultaneously working toward liberal goals of equality and social justice, promoting education, environmental

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<sup>2</sup> Kenneth V. Larkin, quoted in Robert A. Bennett, “Citibank’s Credit Card Blitz,” *New York Times* (Hereafter *NYT*), 23 July 1978, F1.

protection, welfare, judicial reform, and consumer protection. Harnessing an exceptional work ethic and an indomitable force of will, Carter was able to generate considerable success in the Georgia governor's mansion. After only two years on the job, and only five years in public service, he set his sights on the nation's highest office, officially beginning his campaign for the presidency in January of 1973.<sup>3</sup>

Carter's campaign, which culminated with his election in 1976, was heavily focused on issues of economic recovery. By that time, unemployment was above seven percent, the federal government was running a \$66 billion deficit, and inflation, which would become the true economic bugbear of his administration, was fluctuating between five and six percent. On the campaign trail, Carter lambasted incumbent Gerald Ford's economic performance, repeatedly citing the "misery index" – the sum of inflation and unemployment – as an important indicator of Ford's failings. These figures, though, were a marked improvement from the circumstances faced by the Nixon and Ford administrations, which in the mid-1970s bore the negative economic consequences of politically motivated monetary and fiscal policies. Nixon had enacted wage and price controls to stem inflation prior to the 1972 election, and once these were removed, inflationary pressures, made all the more severe by OPEC's coetaneous oil embargo, pushed the nation toward an economic downturn and provided prime political fodder for the Carter campaign.<sup>4</sup>

The economy, though, was neither the sole focus nor the deciding issue of the race. Carter assumed the mantle of the consummate Washington outsider and engineered much of his campaign rhetoric around a "populist" faith in the honesty and integrity of the American people.

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<sup>3</sup> Erwin C. Hargrove, *Jimmy Carter as President: Leadership and the Politics of the Public Good* (Baton Rouge: Louisiana State University Press, 1988), 6-7; Burton I. Kaufman, *The Presidency of James Earl Carter, Jr.* (Lawrence: University Press of Kansas, 1993), 8-12; Anthony S. Campagna, *Economic Policy in the Carter Administration* (Westport: Greenwood Press, 1995), 22-23.

<sup>4</sup> Hargrove, *Jimmy Carter as President*, 87; Campagna, *Economic Policy in the Carter Administration*, 6-9.

Government, in light of Vietnam and Watergate, had not lived up to its founding ideals, and needed a fresh, values-driven approach if it was to regain Americans' trust. Carter offered himself as the embodiment of these ideals, affirming upon his inauguration that "You have given me a great responsibility--to stay close to you, to be worthy of you, and to exemplify what you are."<sup>5</sup>

Once he entered the White House, Carter had to make good on his promises for economic recovery and "populist" promotion of the people's goals. As the President reflected, "The Southern brand of populism was to help the poor and the aged, to improve education and to provide jobs. At the same time the populists tried not to waste money, having almost an obsession about the burden of excessive debt. These same political beliefs...were to guide me in the Oval Office." As this statement indicates, Carter was propelled by two conflicting currents – a deep-seated fiscal conservatism and a liberal social stance reminiscent of the Second New Deal. In this sense, Carter embodied both the last vestige of the declining New Deal Order and a nascent strain of the New Democrat, which would come to full fruition under William J. Clinton.<sup>6</sup>

Committed to a rapid recovery, Carter made an immediate stimulus package the key objective in the early months of his presidency. The stimulus, though, highlighted several dilemmas that would confound economic policy throughout the administration's tenure. The initial goal of the package, and the most outspoken economic promise of the presidential campaign, was a sharp reduction in the rate of unemployment without a consequent increase in inflation; a goal the president's economic advisors assured him was attainable. Yet, in this

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<sup>5</sup> Carter, "Inaugural Address," John T. Woolley and Gerhard Peters, ed., *The American Presidency Project*, <http://www.presidency.ucsb.edu/index.php> (Hereafter cited as *American Presidency Project*), 20 January 1977.

<sup>6</sup> In this instance, it is not clear whether Carter is referring to the Populist Party or to a more broadly defined Southern "populism," although I believe he means the latter. Jimmy Carter, *Keeping Faith: Memoirs of a President* (Fayetteville: The University of Arkansas Press, 1995), 79.

instance the administration faced the classic Keynesian dilemma, pitting full employment policies against anti-inflationary policies, a dilemma made all the more puzzling with the emergence of stagflation earlier in the decade. Further, the President tried to keep the stimulus on the conservative side, limiting spending on job programs and public works, a tack which alienated congressional Democrats who envisioned a return to the more liberal spending policies of the Johnson and Kennedy administrations. Finally, as the package wended through Congress, the President perceived that the economy was recovering of its own accord, leading Carter to question the merits of a proposed fifty-dollar tax rebate, which some of his advisors suggested might be inflationary. By flip-flopping, the administration appeared uncertain in its policy direction, and as historian Erwin Hargrove has noted, Carter “spent the rest of his term attempting to balance avoidance of recession and high unemployment (the wish of any Democratic president) with sporadic attacks on rising inflation.” Ultimately, Carter decided that inflation was the foremost priority, but only after muddling through an extended stint of ineffective policy choices.<sup>7</sup>

The administration’s economic ambivalence, or perhaps ambiguity, began with Carter, who failed to provide a firm policy vision, but extended throughout the economic policy staff. The stagflation of the 1970s, coupled with the increasing prominence of neoliberal ideology in the economics profession, conspired to delegitimize the hybridized Keynesianism that had guided economic policy in the postwar era. Consequently, Carter’s staff adopted a pragmatic approach, relying on Keynesianism where it seemed to be effective, while also gradually adopting neoliberal ideologies, especially a commitment to deregulation and thinly veiled

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<sup>7</sup> Bruce J. Schulman, “Slouching toward the Supply Side: Jimmy Carter and the New American Political Economy,” in Fink and Graham, *The Carter Presidency: Policy Choices in the Post-New Deal Era* (Lawrence: The University of Kansas Press, 1998), 54-55; Hargrove, *Jimmy Carter as President*, 69-70, 92.

antagonism toward organized labor. Charles Schultze, the Chairman of Carter's Council of Economic Advisors is a case in point: At the time of his appointment, Schultze was arguably the country's most prominent Keynesian economist, having served as Budget Director under Lyndon Johnson and later as a fellow at the prestigious left-leaning Brookings Institute. Yet, in 1974, Schultze signaled a transition in his thinking, publishing *Pollution, Prices, and Public Policy*, in which he argued that federal anti-pollution regulation should be restructured to more fully rely on market discipline to impel companies to protect the environment. Thus, while Reagan's election often marks the ascendance of neoliberal policymaking, Carter's staff became increasingly committed, if in a measured way, to this path.<sup>8</sup>

As the term moved forward, then, Carter and his team of economic advisors pursued a course which zigzagged between conservative and expansionist as fluctuations in the economy waxed and waned. The economic recovery that was underway in 1976 continued into 1977, ushering in a period of strong economic growth. Unfortunately for the administration, with this growth came increased inflationary pressures, perhaps aided by the stimulus's infusion of federal funds into the economy. To combat this, Carter instituted voluntary wage and price controls, and limited pay raises to federal workers in early 1978. These measures proved to be largely unsuccessful, leading the administration to undertake "phase two" of its anti-inflation strategy in October of 1978, which called for budgetary restraint and a more rigorous attempt to stem wage and price increases. Still, by year's end, inflation was marked at 9 percent with limited prospects for reduction in the near future.<sup>9</sup>

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<sup>8</sup> Allen V. Kneese and Charles L. Schultze, *Pollution, Prices, and Public Policy* (Washington: Brookings Institution, 1974); W. Carl Biven, *Jimmy Carter's Economy: Policy in an Age of Limits* (Chapel Hill: The University of North Carolina Press, 2002), 44.

<sup>9</sup> Kaufman, *James Earl Carter*, 52, 80-81, 113-114.

Added to the administration's persistent economic policy problems was a new and unexpected phase of bank credit card solicitation, which began in late 1977 and accelerated during the next two years. Following the 1970 ban on unsolicited credit-card mailings, credit cards had momentarily slipped from the public spotlight. During the early 1970s banks worked to consolidate the massive increase in card holders brought into the fold by the marketing campaigns of the late 1960s, while simultaneously reconfiguring the national interchanges to more adequately handle the new volumes of business generated by millions of active credit cards. These were both daunting challenges. First, as demonstrated in the previous chapter, banks had invited insolvency through their indiscriminate card mailings, and it would take time to winnow their rolls of sometimes delinquent card holders into mature portfolios of competent and lawful users. Losses of this kind, though, were a problem that tended to affect banks individually; the inadequacies of and infighting within the national interchanges challenged the bank card industry as a whole.<sup>10</sup>

The BankAmericard, for one, which was so successful for its parent bank in California, had not exported well into other states. Participating banks chafed under Bank of America's management, while inefficient handling of sales drafts and other interchange functions, combined with redundant or shoddy advertising, made the system a net loser for all participants save BOA. Consequently, in 1970 the BankAmericard program underwent a dramatic restructuring, loosing itself from BOA's control and organizing as National BankAmericard, Inc. (NBI), a for-profit, member-owned company headed by charismatic and tyrannical president Dee Hock. Similar moves at Master Charge enabled both major interchange associations to

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<sup>10</sup> Philip Zweig, *Wriston: Walter Wriston, Citibank and the Rise and Fall of American Financial Supremacy* (New York: Crown Publishers, 1995), 615-616; Jack Bourne, "Bouncing Back from the Recession," *Banking*, 15 September 1975, 84, 90.



successfully reorganize and ultimately cement their dominance of the national bank card market. Soon, many banks were issuing both cards simultaneously, and the industry seemed poised by the mid-1970s to become a steady source of growth for member banks. In a 1976 article titled, “Everything Up but Delinquencies,” the trade magazine *Banking* gushed, “Americans are using their banks cards more often to spend more money – and they’re paying their bills more promptly than ever before.” Thus, in the lull of the early and mid-1970s, bank card programs were able to quietly consolidate and even grow, prompting credit historian Lewis Mandell to write, “In retrospect, the ban on unsolicited cards probably came at an opportune time for bank card companies.”<sup>11</sup>

In late 1977, the lull ended. Citibank, in an unprecedented move, mailed out, “in blitzkrieg fashion,” pre-approved credit card applications to over 20 million Americans in 35 states. Known colloquially as “the drop,” Citi’s aggressive action constituted a sharp break with the bank’s previously localized card distribution strategy, instead comprising the central thrust in CEO Walter Wriston’s emergent vision to remap the nation’s consumer-credit geography. Wriston and other Citibankers saw the bank credit card as a way to traverse the branching boundaries prescribed by the McFadden Act and other Depression-Era legislation, circumventing the federal prohibition of interstate banking by building a national consumer credit empire outside the regulatory regime; it was, as Wriston would later recall, “a way to start the process...of nationwide banking.” Citi executives planned to construct this domain without

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<sup>11</sup> Joseph Nocera, *A Piece of the Action: How the Middle Class Joined the Money Class* (New York: Simon & Schuster, 1994), 89-93; Jack Bourne, “Bouncing Back from the Recession,” *Banking*, 15 September 1975, 84, 90; “Everything Up but Delinquencies,” *Banking*, 15 August 1976, 50; Lewis Mandell, *The Credit Card Industry: A History* (Boston: Twayne Publishers, 1990), 35.

lifting a spade or laying a brick, employing cards with no fixed physical place to annex far-away consumers into Citibank's credit empire.<sup>12</sup>

Fittingly, Visa was crucial to opening up the regulatory borders for Citibank's interstate expansion. In late 1976, National BankAmericard Inc. (NBI) president Dee Hock announced the company's intention to drop the BankAmericard name in favor of consolidating NBI's domestic and international card operations under the more universal trade name Visa. This move was designed to distance NBI from Bank of America, the original issuer of the BankAmericard, providing instead a unifying brand for the hundreds of banks issuing credit cards as part of NBI's national interchange system. Moreover, the Visa name, which was carried a similar pronunciation and meaning in most major languages, signaled Hock and NBI's internationalist vision for the brand and its credit card products, presaging Visa being "everywhere you want to be." To inform BankAmericard holders and other consumers of the change, NBI planned a \$50 million advertising campaign, which presented the artful executives at Citi with a unique opportunity.<sup>13</sup>

The credit cards issued through BankAmericard and Master Charge carried these logos prominently, reorienting the consumer's focus away from the issuing bank and toward the national interchange – the name on the card that gave it its purchasing power. Thus, while national interchanges initially relied on locally bounded banking relationships to build their

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<sup>12</sup> "Perils of Plastic: As Banks Issue More Cards Delinquencies Soar," *Wall Street Journal* (Hereafter *WSJ*), 3 July 1979, 1; Zweig, *Wriston*, 553-554; Walter Wriston, Interview, in PBS, *Frontline*, "Secret History of the Credit Card," 28 April 2004, <http://www.pbs.org/wgbh/pages/frontline/shows/credit/interviews/wriston.html>. Under the McFadden Act, passed in 1927, national banks could not build branches outside their home states – a rule subject to only a few, limited exceptions.

<sup>13</sup> "BankAmericard to Get a New Name: Visa," *New York Times* (Hereafter *NYT*), 11 September 1976, 41; Nocera, *A Piece of the Action*, 144-145. In the 1950s, bank credit cards were issued by individual banks to serve local markets. By the 1960s, banks, likely inspired by success of national card systems such as American Express, banded together into organizations that allowed multiple banks to issue cards under the same brand, for instance, BankAmericard or Master Charge. These networks, termed national interchanges, gave bank cards national reach while still relying on local banks to solicit customers and register retailers into the card program. Unsurprisingly, many banks disliked issuing credit cards that featured the name of another bank, viz: Bank of America.

merchant and customer bases, they also eroded these boundaries as BankAmericard and Master Charge became national, even international, institutions – synonymous with mobility and surmountable distance – while the issuing banks became silent partners in their own loss of identity. Many BankAmericard customers, so the Citibankers believed, were unaware or uninterested in the institutional connections that linked them, through their local banks, to the national interchange network. By employing pernicious methods or savvy marketing – depending on the account – Citibank capitalized on this alienation by offering 20 million BankAmericard customers the Visa card they had been told to expect. Although Citibank had never issued NBI card products before 1977, many consumers assumed that the offer was part of the Visa name change and promptly mailed Citi their acceptances – 4 million of them.<sup>14</sup>

By sending pre-approved applications instead of actual cards, Citi dodged the 1970 ban and soon inundated the nation with Citibank Visas. The move shocked other bankers; in the early years of the national interchange systems, banks had confined mass mailings to their immediate local or regional territories, limiting the range of competition, especially between banks operating within the same interchange. Though in the late 1960s, banks in Illinois and Nebraska solicited customers as far away as neighboring Iowa or South Dakota, few bankers contemplated truly national competition. Citibank's audacity, therefore, prompted other NBI issuers to respond with outrage. Bankers in St. Louis, for instance, were incensed that Citi would dare encroach on "their market." Referring to Citi's invasion, William Travis, a vice-president at The First National Bank of St. Louis fumed, "The only thing bad about the credit-card business is that some banks are getting too greedy." Swallowing their complaints, numerous other banks

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<sup>14</sup> Robert A Bennett, "Citibank's Credit Card Blitz," *NYT*, 23 July 1978, F9; Zweig, *Wriston*, 553.

simply followed suit; the *Wall Street Journal* reported, “Regional banks say the heavy national promotion has forced them to step up their own marketing to compete.”<sup>15</sup>

Whether to defend their home territory or to make a grab at the lucrative consumer lending business, banks across the nation began mailing campaigns of their own, sparking a new phase of mass solicitation that would accelerate through the end of the 1970s. Unsurprisingly, the legerdemain Citi and other banks used to bypass federal regulation did not endear them to politicians or the consuming public, especially as anxieties over excessive consumption propelled societal angst in the period. A typical response came from White House pollster Patrick Caddell, who lamented to President Jimmy Carter in a 1979 memo, “Live for today, financed by greater and greater debt has replaced the stable rock of steady, prudent future planning in America.” Thus, as stories of banks’ unwise credit extensions abounded – whether to overstretched borrowers already deep in debt; to children, pets, and the long deceased who erroneously received pre-approved offers; or to conmen and counterfeiters who profited from the anonymity of mass-mailing – these tales buttressed a national mythology of thrift that marked credit cards and their unscrupulous issuers out for public derision.<sup>16</sup>

Still, despite these unintended outcomes, the plastic precipitation appeared to proceed more profitably than in the previous decade. Some banks attributed this to local attitudes toward credit, which led courteous consumers to pay promptly. “Call it Midwestern morality or

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<sup>15</sup> *Fred Fisher v. First National Bank of Omaha*, *Federal Reporter*, 2<sup>nd</sup> Series vol. 548 (St. Paul, Minn.: West Publishing Co., 1977), 256; *Fred Fisher v. The First National Bank of Chicago*, *Federal Reporter*, 2<sup>nd</sup> Series vol. 538 (St. Paul, Minn.: West Publishing Co., 1977), 1284; Zweig, *Wriston*, 553; “Perils of Plastic: As Bankers Distribute More Credit Cards, Delinquencies Soar,” *WSJ*, 3 July 1979, 1.

<sup>16</sup> Daniel Horowitz, *The Anxieties of Affluence: Critiques of American Consumer Culture, 1939-1979* (Boston: University of Massachusetts Press, 2004), 203-206, 224; Memo, Pat Caddell to President Carter, 23 April 1979, “Memoranda: President Carter 1/10/79 – 4/23/79 [CF, O/A 519]” folder, Box 40, Staff Offices: Press, Jody Powell, Jimmy Carter Library; Robert A Bennett, “Citibank’s Credit Card Blitz,” *NYT*, 23 July 1978, F9; Edward P. Foldessy, “Eager Lenders: Consumers Find Credit Is Easy to Get as Banks Compete for Business,” *WSJ*, 19 March 1979, 1; “Perils of Plastic: As Bankers Distribute More Credit Cards, Delinquencies Soar,” *WSJ*, 3 July 1979, 1; Zweig, *Wriston*, 553, 615-616.

whatever, but our people have a conservative strain,” one St. Louis banker noted to the *Wall Street Journal*, while another added, “our delinquencies are low not because we’re so damn smart, but because our people are used to paying their bills.”<sup>17</sup> Nostalgic regionalism aside, card profitability stemmed from an effective pricing structure that, at least through 1978, remunerated banks adequately for the services they offered. As Robert Bennett of the *New York Times* reported:

One bank, which asked not to be identified, revealed its figures for last April. Its gross income from its credit card receipts amounted to 17.07 percent. Of that, between 13 and 14 percent came from interest income from card-holders, with the remainder from discounts charged merchants and other fees. Total expenses amounted to 10.13 percent, including salaries, rents, loan losses, postage, allocated overhead, taxes and charges to the bank’s capital.

Thus, gross income minus expenses equaled 6.94 percent. But that does not include the cost of money to the bank. In April, the average cost of that bank’s money amounted to 6.21 percent. The net return to the bank, then, amounted to .73 percent. For a New York bank, this is considered a good result.

Rising interest rates could quickly turn the situation around. If a bank’s cost of funds were to rise to say 7½ percent, the bank would lose money on its credit card business.<sup>18</sup>

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Bennett’s concerns would prove well founded, but in the short term the negative publicity drew attention to another unseemly aspect of these newly minted credit cards: their perceived propensity to exacerbate inflation. As cards flooded the market, inflation also surged, and by March 1979, the Consumer Price Index was ticking up at an annual rate of 11 percent. For the Carter White House, this was of particular concern, especially as the American people were quickly losing confidence in the administration’s ability to effectively combat this trend. Consequently, in early 1979, senior economic staff scrambled to craft policy initiatives which

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<sup>17</sup> “Perils of Plastic: As Bankers Distribute More Credit Cards, Delinquencies Soar,” *WSJ*, 3 July 1979, 27.

<sup>18</sup> Robert A. Bennett, “Citibank’s Credit Card Blitz,” *NYT*, 23 July 1978, F9.

might have hope of slowing inflation's steady climb. One option, advocated from the outside by longtime congressional staffer Charles B. Holstein, was a focused assault on the excessive use of credit in the then overheated economy. In an impassioned memo, Holstein pushed the White House to implement powers granted under the Credit Control Act of 1969, which, as Holstein reported, enabled the president to authorize the Federal Reserve to regulate any form of credit that, in his opinion, was being used in an inflationary manner. As Holstein argued, credit contributed to inflation by fueling anticipatory buying in consumers eager to make purchases ahead of price increases. By stepping in, the administration could make a strong statement to both consumers and lenders "that it will act on the inflation crisis where it has the power to do so."<sup>19</sup>

Holstein, who had served as the primary staffer for Representative Wright Patman's Committee on Banking and Currency since the late 1950s, was intimately familiar with the Credit Control Act and its powers, and offered the administration an early blueprint for the possible uses of credit controls. Credit, Holstein argued, was having inflationary effects on home prices and car sales, and the act could be employed to stem mortgages or auto loans. Another prime candidate for controls, Holstein remarked, were credit cards. "Many credit card companies – practically all of them, in fact," his memo warned, "are actively promoting long-term debt by credit card, at 18% interest." Indeed, 18 percent was the rate Citibank charged the majority of its customers, and was the standard rate for most card issuers. Instead of financing consumption at such high rates with open-ended, revolving credit, Holstein argued, controls could be used to impose maximum repayment periods on such lending, increasing the monthly

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<sup>19</sup> Federal Reserve, Federal Reserve Bank of Minneapolis, "The Consumer Price Index (Estimate), 1800-2010," [http://www.minneapolisfed.org/community\\_education/teacher/calc/hist1800.cfm](http://www.minneapolisfed.org/community_education/teacher/calc/hist1800.cfm); Kaufman, *James Earl Carter*, 139; Department of Labor, Bureau of Labor Statistics, "Consumer Price Index," <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiiai.txt>; Memo, Charles B. Holstein to Ester Peterson, 12 March 1979, "Credit Controls, 3/79 – 11/79" folder, Box 13, Special Advisor – Inflation, Kahn, Jimmy Carter Library.

payment amounts necessary to service the debt and decreasing the attractiveness of such plans to consumers. This action, Holstein continued, could force consumers to forgo anticipatory buying, or instead finance purchases using fixed installment loans at lower interest rates – and hence at less inflationary, lower prices.<sup>20</sup>

As a result of Holstein's prodding, staff members in the Council of Economic Advisors (CEA), the Office of the Special Advisor on Inflation, and the Treasury Department began to investigate the "Selective Control of Consumer Credit." In late March, the Treasury Department informed Carter, "some consumers may be overextending their debt positions to an extent that is not desirable," counseling further, "Your advisors also agree unanimously that action should be taken to limit the most liberal terms of consumer credit." At Treasury's prompting, the President agreed to pursue "preliminary discussions" regarding limitations on consumer credit, and through April and May, the CEA and the Inflation Advisor's offices examined the viability of a credit controls policy.<sup>21</sup>

While the treasury showed enthusiasm for invoking the act's powers, the White House's economic staff was divided on the issue. Earlier, in December of 1978, Council of Wage and Price Stability Chairman and Inflation Advisor Alfred Kahn mused publicly about the possible benefits of credit controls as a means to stem inflation. These ruminations, broadcast on PBS and reprinted in the *Wall Street Journal*, sparked a minor panic within the Council of Economic

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<sup>20</sup> Patricia Sullivan, "Capitol Hill Staff Aide Charles B. Holstein Dies at 91," *Washington Post* (Hereafter *WP*), 14 July 2005, B06; Memo, Charles B. Holstein to Ester Peterson, 12 March 1979, "Credit Controls, 3/79 – 11/79" folder, Box 13, Special Advisor – Inflation, Kahn; Memo, From Burke Dillon to Charlie Schultze, 27 February 1980, "[Staff Files]: Dillon, Burke [1]," folder, Box 147, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library. Patman, who chaired the committee from 1963 to 1974, was instrumental in the Credit Control Act's passage.

<sup>21</sup> Document, "Selective Control of Consumer Credit," 13 March 1979, "[EPG: Economic "Game Plan"] [1]" folder, Box 108, Staff Office - CEA (Council of Economic Advisors); Memo, Department of the Treasury to President Carter, 30 March 1979, "Credit Controls, 3/79 – 11/79" folder, Box 13, Special Advisor – Inflation, Kahn; Memo, Department of the Treasury to President Carter, 12 March 1979, Memo, Burke Dillon to Charlie Shultze, 10 April 1979, "Credit Controls, 3/79 – 11/79" folder, Box 13, Special Advisor – Inflation, Kahn, Memo, Department of Justice to Charlie Schultze, 12 April 1979, "Credit Controls" folder, Box 14, Memo, Charlie Schultze to President Carter, 25 May 1979, "CEA Memos to the President, 5/79" folder, Box 54, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library.

Advisors. Senior economist Lyle Gramley urged CEA chairman Charles Schultze to “find an early opportunity to go public on this issue and state emphatically that the use of credit controls is not under consideration,” adding forcefully, “Imposition of Credit Controls Would be a Bad Idea.” Not totally dissuaded by his own injunction, though, Gramley too found himself “reflecting over the possibility of controls over consumer installment credit” the following month, but ultimately concluded “the whole idea...to be a bad scene.” Fittingly, Gramley, after his elevation to Governor of the Kansas City Federal Reserve Bank in May, 1980, would help oversee the eventual dismantling of Carter’s credit control program.<sup>22</sup>

Still, despite Gramley’s objections, in 1979 the CEA had a mandate to pursue “preliminary discussions,” and staff economists set about examining credit controls and with them the “tremendous” growth in consumer credit that had occurred in the preceding decades. At the outset, the proponents of controls, Holstein and the Treasury Department, recommended shortening repayment periods for installment loans and mandating higher monthly payments for revolving credit accounts. These actions, preserved in institutional memory as the chief enforcement measures when credit controls were utilized during World War II and the Korean War, placed the burden of higher credit costs on consumers; in this way little easy payments became, regulators hoped, big difficult payments, increasing the price and reducing the demand for credit.<sup>23</sup>

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<sup>22</sup> “U.S. May Study Credit Controls In Inflation Fight,” *WSJ*, 4 December 1978, 3; Memo, Lyle Gramley to Charlie Schultze, 4 December 1978, “Talk about Credit Controls,” “Credit Controls” folder, Box 15, Staff Office – CEA (Council of Economic Advisors); Memo, Lyle Gramley to Charlie Schultze, 25 January 1980, “Consumer Installment Credit Controls,” “Consumer Credit Controls” folder, Box 14, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library; Federal Reserve, “Membership of the Board of Governors of the Federal Reserve System, 1914-Present,” <http://www.federalreserve.gov/bios/boardmembership.htm>.

<sup>23</sup> Memo, Lyle Gramley to Charlie Schultze, 25 January 1980, “Consumer Installment Credit Controls,” “Consumer Credit Controls” folder, Box 14, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library. In this case, the price increase is not inflationary – the list price of the good remains the same, and in a real sense costs less to buy because less interest can accrue.



In the case of credit controls, though, the demand focus, while grounded in previous experience, could not adequately contend with the dramatic growth in the sources and supply of credit that had taken place since controls were last instituted. As Gramley noted, “consumer installment credit has grown tremendously in importance since the last time that controls were used,” while another report estimated that “today there are probably 50,000 or so lenders in the consumer installment field.” With such a large number of lenders in the market, instituting controls “would involve monumentally heavy costs” associated with credit regulation. Further, in addition to the expense, the fungibility of credit frustrated Carter’s economic team in their considerations of controls. “As the credit instrument has become divorced from the asset purchased, consumer credit has become a more generalized source of purchasing power,” one report lamented, meaning that “restraint imposed in one area, would lead to expansion from other sources.” Thus, from a Keynesian, demand-oriented perspective credit controls proved to be “essentially unworkable,” and in May 1979, Carter’s advisors temporarily abandoned the idea.<sup>24</sup>

While credit controls premised on reducing consumer demand appeared impossible to implement, White House economists still worried that the expansion of consumer credit was possibly getting out of hand. Fungible debt instruments, these economists feared, “enable[ed] the growth in consumer spending to outpace the increase in disposable income,” and fueled, “a drop in the savings rate.” But they were not really sure. Essentially, the CEA staff faced a problem of definition – the perennial economist’s quandary, “which is the best indicator” – through which they struggled to define the weight of consumer credit and debt in the dynamic late-1970s economy. Was total outstanding debt, which had risen \$45 billion dollars or 3.1

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<sup>24</sup> Memo, Lyle Gramley to Charlie Schultze, 25 January 1980, “Consumer Installment Credit Controls,” “Consumer Credit Controls” folder, Box 14, Staff Office – CEA (Council of Economic Advisors); “Selective Controls of Consumer Credit,” 13 March 1979, Memo, “Consumer Credit Controls” Folder, Box 14, Staff Office – CEA (Council of Economic Advisors); Memo, Charlie Schultze to President Carter, 25 May 1979, “CEA Memos to the President, 5/79” folder, Box 54, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library.

percent of disposable income in only one year a reason for concern? Or should they be thinking about “debt burden,” the ratio of debt repayment to disposable income – not how much a consumer owed, but how much they had to pay back on a regular basis? These questions were complicated further by the perceived rise in convenience credit, embodied in bank credit cards, which added to aggregate measures of credit extensions and repayments – and hence to the debt burden – but did not appear to increase long term outstanding debt.<sup>25</sup>

Former International Monetary Fund economist K. Burke Dillon examined these issues in depth. In an April 1979, report she argued that while “The total outstanding debt of borrowers has increased substantially in relation to disposable income,” this increase “has been offset by the lengthening of maturities.” Thus, while consumers owed more, they were able carry their debts longer and pay less each month, seemingly indicating no “true increase in the debt repayment burden.” As such, consumers did not face declining purchasing power and with it the potential for a declining economy, even as their debts rose. While satisfying to an economist, this explanation implies a tacit acceptance of an increasingly indebted consumer. In the case of bank credit cards, “which accounted for all of the growth in extensions, repayments, and outstandings” from 1975 to 1978, these lengthened maturities came “at 18% interest,” the precise problem Holstein sought to solve with credit controls. Indeed, Dillon’s analyses suggest that, at least in her view, accruing debt was acceptable as long as that debt did not impinge on consumers’ ability to continually buy more goods.<sup>26</sup>

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<sup>25</sup> Memo, “Selective Controls of Consumer Credit,” 13 March 1979, “Consumer Credit Controls” Folder, Box 14, Staff Office – CEA (Council of Economic Advisors); Memo, Burke Dillon to Charlie Schultze, 10 April 1979, “Consumer Credit Controls” Folder, Box 14, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library.

<sup>26</sup> Letter, Charles Schultze to J. de Larosi re, 25 February 1980, “[Staff Files]: Dillon, Burke, [1]” folder, Box 147, Staff Office – CEA (Council of Economic Advisors); Memo, Burke Dillon to Charlie Schultze, 10 April 1979, “Consumer Credit Controls” Folder, Box 14, Staff Office – CEA (Council of Economic Advisors); Dillon’s report relies heavily on *The 1977 Consumer Credit Survey*, which asked consumers to self report their credit habits, a notoriously problematic practice given consumers’ tendencies to over report convenience use and underreport debt purchasing.

Even as Carter's staff determined that credit controls were essentially unworkable and moved on to other considerations, the mere consideration of such a step was enough to outrage conservative Republicans in Congress. In a bid to deny the administration the CCA's power, Senator Jesse Helms (R-NC) – “the most important conservative spokesman in the Senate,” as a recent biographer has dubbed him – introduced Senate Bill 35 (S. 35), a bill to repeal the Credit Control Act. With the Republican Party in the minority, Helms's bill was likely slated to languish without being considered, but the bombastic Senator was not content with a symbolic gesture of objection. To ensure that S. 35 was not mothballed without at least a committee hearing, Helms also offered the text of the bill as an amendment to the extension of the Council on Wage and Price Stability (COWPS), and held up the progress of the COWPS bill until the chairman of the Senate Committee on Banking, Housing, and Urban Affairs, William Proxmire, promised him a full hearing on S. 35. At this point Helms withdrew his amendment, but not before using his allotted time to heap vitriol on the CCA.<sup>27</sup>

Before ascending to the Senate, Helms served as the executive director of the North Carolina Bankers Association (NCBA) from 1953-1960, and in this capacity successfully lobbied the state legislature to liberalize North Carolina's banking laws. In doing so, Helms and others laid the ground-work for the ascendancy of Raleigh as the South's premiere banking city – a favor the banking industry would repay in campaign contributions. Further, Helms used the association's journal, the *Tarheel Banker*, as his own personal neoconservative mouthpiece. As a Senator, however, Helms seldom concerned himself with issues of political economy, and

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<sup>27</sup> William A. Link, *Righteous Warrior: Jesse Helms and the Rise of Modern Conservatism* (New York: St. Martin's Press, 2008), 6; Congress, Senate, Committee on Banking, Housing, and Urban Affairs, *Amending the Credit Control Act*, 23-24 May 1979, 3-5; Congress, Senate, “Council on Wage and Price Stability Amendment of 1979,” 96<sup>th</sup> Cong., 1<sup>st</sup> Sess., *Congressional Record* (2 April 1979), 6909-6914. Ironically, COWPS was the Carter administration's primary tool for advancing its deregulatory agenda, and its extension in 1980 would contain the final repeal of the CCA.

despite his extensive experience with the NCBA, had no desire to serve on the Senate Banking Committee. Instead, Helms tirelessly used his position in the Senate to promote an ideological message built on the hallmark issues of postwar cultural conservatism. Helms stalwartly opposed desegregation and busing, legalized abortion, and gay rights, was virulently anticommunist, and sought to challenge what he saw as a persistent liberal bias in the media. Further, he rallied Christian evangelicals with his unapologetic fundamentalism, and through his ties with the North Carolina Congressional Club, created a national constituency of conservative supporters. In short, Helms embodied the cultural predilections of America's New Right, and did as much as anyone to shape the conservative message and force these issues to the forefront of American politics, save possibly Ronald Reagan.<sup>28</sup>

Thus, given Helms's indifference to issues of political economy, his confrontation with the Credit Control Act marks a significant departure in the target of his rhetoric, if not his rhetoric's substance. In his committee hearing on June 13, 1979, Helms argued that "political implications of the Credit Control Act are more typical of an authoritarian despot than a democracy," and represented "a massive abrogation of economic freedom and personal rights." Indeed, "freedom and personal rights" were the bywords of the cultural conservative movement, and while Helms was venturing into economic policy, he could still comfortably wield this language. His harshest critique of the CCA – other than glibly associating the act with Nazi Fascism – was that it encroached on the rights of free society. "The Credit Control Act," Helms made clear, "curtails a person's ability to do what he wants with the rewards of his labors." And

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<sup>28</sup> Congress, Biographical Directory of the United States Congress, "Helms, Jesse (1921 – 2008)," <http://bioguide.congress.gov>; Ernest B. Furgurson, *Hard Right: The Rise of Jesse Helms* (New York: W.W. Norton & Co., 1986), 60; Link, *Righteous Warrior*, 5-9; Author's correspondence with William A. Link, author's possession.

while Helms was ultimately unsuccessful at moving S. 35 beyond the committee, the power of this statement is enduring.<sup>29</sup>

When Dillon and Helms's ideas are taken together, they encompass a newly coalescing view – what geographer David Harvey might call a “conceptual apparatus” – of the place and meaning of consumer credit in society and the economy. On one hand Dillon, the economist, suggests that in aggregate, escalating consumer debt is acceptable as long as it does not inhibit purchasers from purchasing; on the other Helms, the politician, argues that credit is a matter of personal freedom and a reward of a person's labor: nevermind that in both accounts wages ceased to be part of the equation. How consumers choose to use credit was immaterial, and, in fact, both Dillon and Helms knew that most consumers were likely using credit to maintain the purchasing power needed to keep the economy afloat. In this sense, convincing consumers to include credit in their conceptualization of work and freedom took ideological effort, and economists, conservative politicians, and bankers were sharing the burden of this toil. “We have the spectacle,” argued credit's champion, Walter Wriston, “that it is a good loan for you to buy a refrigerator on time and it is a bad loan for you to take your family to dinner and charge it to Master Charge.”<sup>30</sup>

Not everyone, however, was willing to freely imbibe the neoliberal conceptualization of credit, and Wriston, Helms, and Dillon's views represented one aspect of a larger debate about the place of consumer credit and consumption in American society that unfolded in the 1970s. As the boundless optimism of the 1960s waned and a decade of high inflation eroded American incomes and called into question the patterns of consumption honed in the earlier era, opinion

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<sup>29</sup> Jesse Helms, Congress, Senate, Committee on Banking, Housing, and Urban Affairs, *Amending the Credit Control Act*, 23-24 May 1979, 9.

<sup>30</sup> David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005), 5; Walter Wriston, quoted in “Bosworth, Kahn Differ On Controls,” *NYT*, 24 March 1980, D1, D7.

shapers and public intellectuals began to reconsider the place of affluence in American society. As historian Daniel Horowitz argues, public debates in this period reflected a concern that Americans were eschewing traditional goals of family, work ethic, and spirituality in favor of hedonistic, individualistic consumption. “Social scientists,” Horowitz writes, “worried that self-indulgence would undermine the fabric of American society, expressed concern about the dangers of profligate spending.” Though these concerns were not altogether new, with antecedents running from Benjamin Franklin to Irving Bacheller, they took on new urgency as the bounty and optimism of the postwar period waned. Central to these debates were three leading intellectuals, historian Christopher Lasch and sociologists Daniel Bell and Robert Bellah, whose widely read books touched in varying degrees on themes of a renewed self-restraint and religiosity, a re-embrace of national traditions and communal values, and above all an abhorrence for degenerative self-indulgence.<sup>31</sup>

Intended to spark national self-analysis, these themes resonated profoundly with President Carter. After two and a half years of battling inflation and fighting for a sustainable national energy policy – what he termed the “moral equivalent of war” – the President came to the conclusion that the issues facing the nation transcended economics and energy. “Americans,” Carter recalls, “were rapidly losing faith in themselves and in their country.” This view could be traced in part to the President’s chief pollster, Pat Caddell, who had read widely in the debates surrounding consumption and confidence, and had seen the concerns of Lasch, Bell, and Bellah emerge vividly in his own polling data. Sharing his views with Carter in a lengthy April 1979 memo entitled “Of Crisis and Opportunity,” Caddell told the President frankly, “America is a nation deep in crisis.” He then expounded over 75 pages of text the depth of the

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<sup>31</sup> Horowitz, *The Anxieties of Affluence*, 205-206.

national malaise he perceived eroding citizens' confidence in their government and themselves, citing non-voting, the "Me" generation, consumer behavior, and lack of national purpose as signs of this erosion. Caddell urged Carter to become a beacon around which a new national vision could coalesce, writing that the crisis "presents you the opportunity, so rare in American history, to reshape the structure, nature, and purpose of the United States in ways which your predecessors only dreamed." The President took Caddell's vision very seriously, and the two began a shared reading list that included the work of Lasch, Bell and Bellah, culminating with a meeting between the President, Caddell, Bell, Lasch and others on May 30, 1979.<sup>32</sup>

Given the nature of the public debate inspired by these authors' work, both consumption and self-indulgence featured prominently in "Of Crisis." Caddell lamented that "The public...is spending as if there is no tomorrow," and further, "Live for today, financed by greater and greater debt has replaced the stable rock of steady, prudent future planning in America." This line of thought had deep implications for the administration's two most pressing domestic concerns, inflation and energy, and ultimately led the President to reevaluate his approach to these issues. Consequently, on July 5<sup>th</sup>, Carter, who had been scheduled to address the nation for the fifth time on the energy crisis, decided instead to scrap the speech entirely, removing to Camp David for a period of reflection and advisement that would ultimately redefine his presidency.<sup>33</sup>

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<sup>32</sup> Carter, "The Energy Problem: Address to the Nation," *American Presidency Project*, 18 April 1977; Carter, *Keeping the Faith*, 120; Memo, Pat Caddell to President Carter, 23 April 1979, "Memoranda: President Carter 1/10/79 – 4/23/79 [CF, O/A 519]" folder, Box 40, Staff Offices: Press, Jody Powell, Jimmy Carter Library, 1. Though the work's of these men clearly influenced Carter, as subsequent evidence will show, his personal interactions with these scholars was less fruitful. In Daniel Bell's account of this meeting, which is the basis for Horowitz's analysis, Carter is portrayed as a supplicant seeking absolution for his presidential failings. Alternatively, Carter, in his most recent memoir, *White House Diaries*, recalls "David Bell and Christopher Lasch being too erudite for their comments to be practical." Horowitz, *The Anxieties of Affluence*, 229; Jimmy Carter, *White house Diaries* (New York: Farrar, Straus and Giroux, 2010), 323.

<sup>33</sup> Memo, Pat Caddell to President Carter, 23 April 1979, "Memoranda: President Carter 1/10/79 – 4/23/79 [CF, O/A 519]" folder, Box 40, Staff Offices: Press, Jody Powell, Jimmy Carter Library, 26; Carter, *Keeping the Faith*, 120-121.

Following ten days of seclusion in which Carter consulted with a host of advisors, including politicians, business and labor representatives, religious and community leaders, economists and energy experts, and even Robert Bellah, the President delivered a speech that defined a new direction for his administration. Officially known as the “Crisis of Confidence” Speech, but more often referred to pejoratively as the “Malaise” Speech, Carter’s address reached far beyond the issue of energy and offered a strong critique of the nation’s direction and purpose. Using a phrase often employed by Christopher Lasch in *The Culture of Narcissism*, Carter told Americans that their inability to unite on the issue of energy was rooted in deeper problems:

It is a crisis of confidence. It is a crisis that strikes at the very heart and soul and spirit of our national will...

In a nation that was proud of hard work, strong families, close-knit communities, and our faith in God, too many of us now tend to worship self-indulgence and consumption. Human identity is no longer defined by what one does, but by what one owns. But we've discovered that owning things and consuming things does not satisfy our longing for meaning. We've learned that piling up material goods cannot fill the emptiness of lives which have no confidence or purpose.

The President also offered hope, buttressed by his “populist” faith in the inexhaustible resources of the American people. He warned his audience, estimated at over 100 million, that while there were no short-term solutions to such long-term problems, with unity and a willingness to sacrifice, the nation’s crisis of confidence – and with it the crises of energy and inflation – could be overcome.<sup>34</sup>

The White House was immediately flooded with letters and phone calls, 85 percent of which lauded the President for his strong stance and his firm message. Citizens embraced

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<sup>34</sup> Carter, *Keeping the Faith*, 121-125; Daniel Horowitz, *Jimmy Carter and the Energy Crisis of the 1970s: The “Crisis of Confidence Speech,” A Brief History with Documents* (New York: Bedford/St. Martins, 2005), 126, 152; Carter, “Address to the Nation on Energy and National Goals: “The Malaise Speech,”” *American Presidency Project*, 15 July 1979.



Carter's jeremiad, for they too were troubled by the pervasiveness of consumerism and self-interest they saw in themselves and in their fellow Americans; despite its dour tone, the speech gave Carter a significant boost, sending his approval rating up a full 11 points – though it still would not top 40 percent. In the days that followed, however, the President, in an effort to reorient his administration toward this new focus, made a dubious political decision, requesting the resignation of his entire cabinet. Carter declined to accept most offers, but a few major advisors, including Secretary of the Treasury Michael Blumenthal, were shown the door. Such haphazard shuffling reignited concerns that Carter was floundering, while also eliciting comparisons to Nixon's "Saturday Night Massacre." This action overshadowed Carter's larger message, and diminished the impact of Carter's attempt to reshape the national dialogue.<sup>35</sup>

The cabinet shakeup had further consequences by creating high-profile gaps in the President's economic team, a situation that needed to be resolved quickly as the administration looked to address the problem of inflation. First, Carter had to replace Blumenthal at the Treasury, which he did by selecting William G. Miller, then Chairman of the Federal Reserve, for the position. This left a crucial vacancy at the Fed, one that Carter would eventually fill with the gangly economist Paul Volcker, arguably the single most important appointment of his presidency. At the time of his nomination, Volcker was president of the New York Federal Reserve Bank, the most important of the 12 Fed banks and the branch responsible for carrying out important aspects of the Fed's monetary policy. In this capacity Volcker had established a clear record, favoring high interest rates and other tight money policies to constrain the growth of the money supply and fight inflation at all costs, including eventual double-digit unemployment.

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<sup>35</sup> J. David Woodard, *The America that Reagan Built* (Westport, Conn: Praeger, 2006), 4-7; Biven, *Jimmy Carter's Economy*, 273; Kevin Mattson, "What the Heck Are You Up To Mr. President:" *Jimmy Carter, America's "Malaise," and the Speech That Should Have Changed the Country* (New York: Bloomsbury, 2009), 159-161.

Volcker's appointment highlighted the administration's increasingly firm stance against inflation, though the *New York Times* initially called the move "largely symbolic."<sup>36</sup>

Sensing the need for decisive action, Volcker steered the Fed in a new direction, embarking on a dramatic policy shift on October 6, 1979. To that point, the Fed had worked to control inflation through the manipulation of interest rates. In theory, as the Fed pushed interest rates up, banks were discouraged from borrowing, reducing their reserves and thus restricting their capacity to loan money. This, in turn, would slow the growth of the money supply and with it the rate of inflation, while also keeping interest rates stable and under the Fed's control. Volcker, though, believed that inflationary psychology was too deeply entrenched, and that bankers were not taking the Fed's actions seriously enough to slow the growth of the money supply, a view confirmed by the failure of earlier Fed actions to have any tangible impact on inflation. In this case, bankers were not discouraged from borrowing by the Fed's incremental interest rate increases, and as a result they were able to maintain higher reserves and continue creating money through lending.<sup>37</sup>

Consequently on October 6, 1979, Volcker called a secret meeting of the Federal Open Market Committee, the policy-making arm of the Federal Reserve, to discuss a new direction for the Fed. Volker opened the meeting with a call for decisive action, telling the committee "we can't walk away today without a program that is strong in fact and perceived as strong in terms of dealing with the situation." The Chairman proposed that the Fed cease its manipulation of interest rates altogether, and move instead to control the growth of the money supply directly by tightening the Fed's supervision of bank reserves, and hence on overall bank lending. In doing

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<sup>36</sup> Thomas Karier, *Great Experiments in American Economic Policy: From Kennedy to Reagan* (Westport, Conn.: Praeger Publishers, 1997), 40; "Straight and Narrow with Mr. Volcker," *NYT*, 26 July 1979, A18.

<sup>37</sup> Biven, *Jimmy Carter's Economy*, 240; Karier, *Great Experiments*, 41, 43.

so, the Fed would cede control of interest rates to the market, allowing them to “fluctuate over a wider range.” Such a transition in policy, Volcker hoped, would lead to “a change in the psychological atmosphere that in some sense will give us more bang for the buck.” Though not all Fed members fully embraced the new direction – Nancy Teeters, for one, felt “queasy about it” – the vote was unanimous in favor of money aggregates.<sup>38</sup>

The bang was tremendous. The first practical effect of the Fed’s shift was that Volcker emphatically displayed his seriousness toward breaking inflation and inflationary psychology. The *Wall Street Journal* called the package “the most hopeful economic policy development in over a decade.” Second, and more importantly, by ceding control of interest rates to the market, the Fed willingly accepted a rapid rise in rates. This action was taken with the clear knowledge that high interest rates would likely have an adverse impact on economic growth, and could push the economy into a recession. While this would come later, the first to suffer under the Fed’s new policy were commercial banks.<sup>39</sup>

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Bank profits reside in the space between the rate at which banks attract funds and the rate at which they loan money, and when interest rates are stable, bankers can more easily maintain a comfortable distance between these two numbers. But from mid-September to late-October, the federal funds rate, the rate at which banks make short-term loans to each other and a gauge for market trends, jumped from what had been a historically high 11 ½ percent to an astronomical 15 ½ percent. For credit-card issuers in particular, these numbers were deeply troubling, especially in light of banks’ rapid entry into the credit-card market over the previous two years. Revolving

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<sup>38</sup> Biven, *Jimmy Carter’s Economy*, 240; Volcker, Federal Reserve, “Meeting of Federal Open Market Committee: October 6, 1979,” <http://www.federalreserve.gov/monetarypolicy/files/FOMC19791006meeting.pdf>, 5, 8, 51; Nancy Teeters, “Meeting of Federal Open Market Committee: October 6, 1979,” <http://www.federalreserve.gov/monetarypolicy/files/FOMC19791006meeting.pdf>, 50, 55.

<sup>39</sup> “Support Mr. Volcker,” *WSJ*, 8 October 1979, 24.

credit-card accounts were more expensive to administer than other forms of bank lending, and while banks were able to maintain a profitable spread when their cost of money was averaging around 6 percent, the Fed's new policy quickly pushed the cost to many times that. Moreover, most card-issuing banks could not simply increase the interest they charged consumers because state usury limits restricted their ability to exceed the locally legislated rates. According to data provided by the American Bankers Association to the Carter administration in early 1980, most states had a usury cap at 18 percent or less, and many were as low as 12percent. Consumers, who were less attuned to the machinations of Federal Reserve interest rate policy, but more cognizant of inflation – which, in January 1980, was still at an annual rate of 17percent - could clearly see credit purchasing at such rates as an economically sound decision.<sup>40</sup>

Consequently, by early 1980 banks around the country, especially those subject to low state-level usury ceilings, began to feel the intense pinch as consumers took advantage of interest rates below the rate of inflation. Not wanting to sacrifice their hard-won market share, many banks endured the losses, though others considered exiting the market altogether. Dee Hock, president of Visa, suggested “some banks will have to seriously consider whether they want to continue to offer this service to the public at all.” One bank, the First Peoples Bank of New Jersey, even tried to sell its entire credit card operation, but found no takers.<sup>41</sup>

For Citibank, the problem was particularly acute, given its massive credit card portfolio and New York's strict usury limits. The bank had invested tens, if not hundreds of millions of

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<sup>40</sup> Federal Reserve, Federal Reserve Bank of New York, “Historical Changes of the Target Federal Funds and Discount Rates,” <http://www.ny.frb.org/markets/statistics/dlyrates/fedrate.html>; Robert A. Bennett, “Citibank's Credit Card Blitz,” *NYT*, 23 July 1978, F9; Memo, From Burke Dillon to Charlie Schultze, 27 February 1980, “[Staff Files]: Dillon, Burke [1],” folder, Box 147, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library; Department of Labor, Bureau of Labor Statistics, “Consumer Price index,” <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>.

<sup>41</sup> Deborah Rankin, “Banks Cut Back on Credit Cards: High Interest Rates Reduce Profit Margins,” *NYT*, 7 March 1980, D.1.

dollars into the credit card division, and was now losing hundreds of millions more on the spread between its cost of money and the price at which it could lend. In New York, usury laws limited the amount of interest Citi could charge its card holders to between 12 and 18 percent, depending on the customer's outstanding balance. Consumers, eager to buy before inflation eroded their purchasing power, wisely took advantage of the low rates offered on Citi and other bank credit cards. Wriston, for his part, saw this behavior as perfectly rational, noting in a *Washington Post* op-ed, "[Consumers] perceive that if they borrow at...12 percent when inflation is 18 percent, they're beating the system." For his bank, though, this was disastrous. "If you are lending money at 12 percent and paying 20 percent," Wriston lamented, "you don't have to be Einstein to realize you're out of business."<sup>42</sup>

Needless to say, Wriston's Citibank was in dire straits. Their national bank-card gamble threatened to capsize the business, but Citi could not, like other banks, abandon ship. Appeals to the New York legislature to raise usury ceilings fell on deaf ears; with an upcoming election, state legislators were none too eager to increase their constituent's interest rates. The usury limit, noted one Citibank executive "is a popular issue that even conservatives find themselves on the consumer end," adding, "People see it as motherhood and so on." Seeking some relief, Citi exercised a loophole in national banking law, which allowed it to charge one percentage point higher than the either the Fed's discount rate or the New York usury ceiling, whichever was greater. On February 15, 1980, the Fed raised the discount rate to 13 percent, allowing Citi to increase rates from the state mandated 12 up to 14 percent, temporarily sidestepping local regulation on many of its credit accounts. Still, the move was at best a stopgap measure, and

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<sup>42</sup> Robert A Bennett, "Citibank's Credit Card Blitz," *NYT*, 23 July 1978, F9; Zweig, *Wriston*, 554, 615-616, 677-678; Robert A. Bennett, "Money Lender's Nightmare: Why Citi Never Sleeps," *NYT*, 16 March 1980, F13; Walter Wriston, "Outsmarting Inflation," *WP*, 13 March 1980, A19; Wriston, *Frontline* interview.

with lending losses escalating, Citi needed a dramatic solution to their usury problem. They found it in the form of an obscure 1978 Supreme Court ruling known as *The Marquette Decision*.<sup>43</sup>

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*The Marquette Decision*, or more formally *Marquette National Bank of Minneapolis vs. First Omaha Service Corp. Et Al.*, originated like much of the disquiet surrounding mass distribution that preceded it – with a simple trip to the mailbox. Sometime in February of 1969, Iowa resident Fred Fisher received a letter from the First National Bank of Omaha (First of Omaha), which contained a BankAmericard that neither he nor his wife had requested. Unconcerned, the Fishers proceeded to use their newfound card, along with a similar one sent from The First National Bank of Chicago (First of Chicago), “from time to time to make credit purchases from member merchants,” and “on one occasion his wife obtained a \$250.00 cash advance” at their local Iowa bank. Initially satisfied, the Fishers soon discovered that both banks were charging them higher interest on their outstanding balances than allowed under Iowa’s usury laws. In a feat of geographic juggling, First of Omaha and First of Chicago were exporting the higher rates permitted in their home states into Iowa.<sup>44</sup>

Fisher, incensed, filed suit against both banks separately in Federal Court in the Southern District of Iowa, claiming, among other charges, that the banks had assessed him usurious rates of interest under Iowa law. In both cases, the court dismissed Fisher’s suit for improper venue, forcing Fisher to carry his grievance from his home in Iowa to the banks’ home states. At these

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<sup>43</sup> Jon Walker, “Citibank Could Bring 300-2,000 Jobs to S.D.,” *Sioux Falls Argus Leader* (hereafter *SFAL*), 5 March 1980, 2A; Memo, From Burke Dillon to Charlie Schultze, 27 February 1980, “[Staff Files]: Dillon, Burke [1],” folder, Box 147, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library; Zweig, *Wriston*, 678.

<sup>44</sup> *Fred Fisher v. First National Bank of Omaha, Federal Reporter*, 2<sup>nd</sup> Series vol. 548 (St. Paul, Minn.: West Publishing Co., 1977), 256; *Fred Fisher v. The First National Bank of Chicago, Federal Reporter*, 2<sup>nd</sup> Series vol. 538 (St. Paul, Minn.: West Publishing Co., 1977), 1284.

sites, too, Fisher claimed that First of Omaha and First of Chicago were shipping usurious rates into Iowa, and again he met with frustration. The Court for the Northern District of Illinois, Eastern Division, ruled that Illinois' law held sway over all loans made by First of Chicago, "whether such loans are made in Illinois or elsewhere." Fisher, though, was persistent, and he traveled further still, finally to the Courts of Appeals, the seventh and eighth circuits respectively, which held sway over Illinois and Nebraska. Yet again, both courts ruled in favor of the defendant banks, and since the Supreme Court did not grant a writ of certiorari – denying Fisher the opportunity to carry his case to Washington – Fred Fisher was forced to go home, effectively deciding the issue at the federal level.<sup>45</sup>

Though Fisher's journey ended there, the issue of interstate interest rate exportation did not. Following its victory, First of Omaha looked to extend its BankAmericard hinterland into nearby Minnesota, creating a subsidiary, First Omaha Service Corporation (Omaha Service), to enlist customers and merchants in the state. As in Iowa, Minnesota usury ceilings were lower than those in Nebraska, but in Minnesota, banks were allowed to assess card users an annual fee to supplement the low interest rates and help make their bank card plans profitable. Concerned that Nebraska's more permissive usury laws gave First of Omaha an unfair pricing advantage over its own BankAmericard program, the Marquette National Bank of Minneapolis (Marquette) filed suit, claiming that First of Omaha's card program did not comply with Minnesota law. Because the *Fisher* cases had effectively decided the issue at the federal level, Marquette's lawyers chose only to sue the subsidiary, Omaha Service, a procedural strategy that brought the

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<sup>45</sup> *Fisher v. First of Omaha, Federal Reporter*, 2<sup>nd</sup> Series vol. 548, pg. 256; *Fisher v. First of Chicago, Federal Reporter*, 2<sup>nd</sup> Series vol. 538, 1284.

issue instead into Minnesota state courts, in effect asking that the case be assessed as a local, not national, issue.<sup>46</sup>

Initially, this was a winning strategy, and a lower court permanently enjoined Omaha Service from issuing credit cards in Minnesota. In effect, this also barred First of Omaha, making the Nebraska bank a de facto plaintiff. On appeal, the majority of the Minnesota Supreme Court justices ruled that, while a “bank engaged in the interstate business of credit card financing should not be able to avoid the provisions of Minnesota law,” they could not countenance the procedural prestidigitation employed by Marquette’s attorneys. Still, while the majority reluctantly concurred with the *Fisher* rulings, Justice George M. Scott issued a strong dissenting opinion. “Should a simple credit card transaction between a local citizen and a local merchant be construed as a bank loan by the Nebraska bank to a Minnesota citizen, as Fisher proclaims without question?” Scott queried, adding firmly, “Minnesota should reject such an extension as a misinterpretation of the National Bank Act and exercise its own judgment.”<sup>47</sup>

The tone of the Minnesota Supreme Court’s ruling and the seeming willingness of a state court to challenge *Fisher* under the right procedural circumstances prompted the United States Supreme Court to take up the case in October of 1978. By hearing *Marquette*, the Supreme Court chose to grapple with the implications of the national solicitation strategies employed by card issuing banks over the previous decade, and in a larger sense, with the shifting geographies of consumer credit these strategies were creating. Fittingly, the key legal question in the case pertained to the meaning of the word “located” as written in Section 85 of the National Bank Act

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<sup>46</sup> *Marquette National Bank of Minneapolis vs. First Omaha Service Corporation*, *United States Reports* v.439 (Washington, DC: United States Printing Office, 1980), 304; *Marquette National Bank of Minneapolis vs. First Omaha Service Corporation*, *North Western Reporter* v. 262 N.W.2d (St. Paul: West Publishing Co., 1978), 366, n.2. Within a purely state jurisdiction, state courts are not bound by Federal circuit court decisions, only those rendered by the United States Supreme Court.

<sup>47</sup> *Marquette v. Omaha Service Corp.*, *North Western Reporter* v. 262 N.W.2d, 365-366.



of 1864, which mandated that a national bank assess interest based on the laws of the state in which it is “located.” Was, the court contemplated, First Omaha’s BankAmericard program “located” at a physical site in some state, and if so, where was it? When the law was written, this would have been self-evident: in 1864, a bank had a concrete location. But the bank credit card loosed this foundation. The program could have been “located” in Minnesota, where a Minnesota citizen would employ a First Omaha credit card to purchase goods from a Minnesota merchant, as Judge Scott’s dissent in the antecedent case suggested, and therefore be subject to Minnesota’s usury laws. Alternatively, the program might be “located” in Nebraska, “for,” according to First Omaha’s attorneys, “it is in Nebraska that credit is extended by the Bank’s honoring sales drafts of Minnesota customers, unpaid-balance finance charges are assessed, payments are received, and credit cards are issued.”<sup>48</sup>

In delivering the opinion of the unanimous Court, Justice William Brennan offered: “If the location of the bank were to depend on the whereabouts of each credit card transaction, the meaning of the term ‘located’ would be so stretched as to throw into confusion the complex system of modern interstate banking.” Yet for Fred Fisher, and millions of other bank-card users, the meaning of a bank’s location was already thrown into confusion. While the Court fixed the “location” of a bank at the physical place stipulated by its charter, credit cards spread transactions further afield, erasing the boundary lines between states even as banks relied on these lines to predicate their pricing. By choosing to observe the “logic” of bank capital, the Court tacitly sanctioned the geographic divergence of local relationships – whether between a bank and its customers or a state and its citizens – and consumer credit, bringing Nebraska usury

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<sup>48</sup> *Marquette National Bank of Minneapolis vs. First Omaha Service Corporation*, *United States Reports* v.439 (Washington, DC: United States Printing Office, 1980), 299-300.

laws to bear on Minnesota customers, and making state law an impotent tool for controlling consumer interest rates on the local level.<sup>49</sup>

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Yet, while Citibank lawyers moved quickly to take advantage of *Marquette*, the White House seemed totally unaware of the decision or its implications. Instead, as 1979 turned to 1980, the administration was consumed with the dual crises of the Soviet Union's invasion of Afghanistan and the Iranian hostage crisis, while at the same time the 1980 election began to loom ominously on the horizon. Carter's forceful displays of leadership on these two foreign policy fronts, though, gave the White House a measure of momentum, and with the election in mind, there developed a sense within the administration of a "need to increase the visibility of our anti-inflation effort." In this context, selective credit controls, which had been scrapped in May of 1979, reemerged as a part of a possible bundle of policies aimed at addressing the inflation issue.<sup>50</sup>

Outside the White House, there had existed some momentum for credit controls since Volcker's shift in monetary policy in October 1979. By abdicating direct control over interest rates, the Fed tacitly allowed these rates to rise, pushing up credit costs for card-issuing banks, but also for home and construction financing, auto loans, and a number of other important economic activities. Seeking relief, some, such as Senator William Proxmire, who was instrumental in passing the CCA in 1969, pressed the Fed to consider a credit control policy as a way to alleviate the pressure caused by escalating interest rates. Volcker, though, was adamantly opposed to controls, believing that they both interfered with the natural workings of the market

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<sup>49</sup> *Marquette v. Omaha Service Corp.*, *United States Reports* v.439, 312.

<sup>50</sup> Memo, Anne Wexler to President Carter, 23 February 1980, "2/25/80" folder, Box 172, Presidential Handwriting File; Memo, Ester Peterson to Stuart Eizenstat, 19 February 1980, "FI 5, 9/16/79 – 3/25/80" folder, Box FI-25, White House Central File – Subject File: Finance, Jimmy Carter Library.

and were counterproductive to the Fed's other monetary policy actions. As Volcker noted, credit controls would "severely complicate the situation" adding as late as February, 1980, "I'm no enthusiast of using direct controls in this area and think they can be counterproductive in that they lead to anticipation of inability to raise money and thereby actually increase demand."<sup>51</sup>

Internally, in the early months of 1980 administration economists again began to take notice of consumer credit as an important source of inflation. In February, the Treasury Department expressed concern that "there is some danger of consumers becoming overburdened with debt," and thus "restraint on the growth of consumer credit would directly carry the message to the American public of the need for restraint." Revisiting the Credit Control Act, the Treasury again suggested imposing higher monthly payments on consumers to stymie demand, but officials within the Council of Economic Advisers again rejected this route as unfeasible. Instead, CEA economist Burke Dillon consulted heavily with the Federal Reserve, the body that would ultimately administer whatever controls were chosen, to find a new method for the CCA's implementation.<sup>52</sup>

These consultations were complicated by Volcker's very recent and public stand against credit controls, and his objection to this policy created some concern that the Fed might not go along with the administration. While the text of the CCA enabled the president to "authorize the [Fed] to regulate and control any or all extensions of credit," it did not mandate that the Board do so. Still, Volcker recognized the need to maintain the President's support – given the rising

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<sup>51</sup> Paul Volcker, quoted in "Volcker Says that Any Political Pressure On Fed to Ease Its Policy Will Be Resisted," *WSJ*, 29 October 1979, 3; Volcker, quoted in Stacey L. Schreft, "Credit Controls: 1980," Federal Reserve Bank of Richmond *Economic Review* 76 (November/December 1990), 33.

<sup>52</sup> Memo, The CEA and Treasury Staff to The Economic Planning Group, 26 February 1980, "Budget and Economic Policy 1980: Credit" folder, Box 95, Staff Office – CEA (Council of Economic Advisors); Memo, William Miller to President Carter, 28 February 1980, "2/28/80" folder, Box 172, Presidential Handwriting File, Jimmy Carter Library.

congressional opposition to his tight money policies – and after two meetings with Carter in late February, he assented to the administration’s credit control plan.<sup>53</sup>

Under Volcker there emerged from the Fed a much different vision of what the CCA could accomplish, one indicative of this shifting orthodoxy toward an increased reliance on market forces to allocate economic resources. Instead of strictly mandating credit terms in an effort to increase the price of credit for consumers, and thus manipulating the demand for credit, Carter’s economic team decided to increase the cost of issuing credit for lenders, thus manipulating the supply. To do so, CEA and Fed economists planned to effectively tax all new consumer lending by requiring, via the CCA, that lenders place a percentage of all new loans on deposit in non-interest bearing accounts with the Federal Reserve. In practice, this would mean that for each dollar lent to consumers, lenders would set aside an additional ten, fifteen, or twenty cents – depending on what percentage the Fed decided would be most suitable. This action, it was hoped, would encourage lenders to redirect credit toward more profitable – and less inflationary – activities such as business and mortgage lending.<sup>54</sup>

For the policy to be effective, however, regulators needed to be sure that consumer lenders would be forced to assume the increased cost without simply passing it on to consumers through higher interest rates. In a creative twist, Carter’s advisors managed this by relying on state lending laws to effect the national goal of credit reduction, taking advantage of a patchwork regulatory geography to throw a blanket over consumer borrowing. As Dillon explained:

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<sup>53</sup> Shreft, “Credit Controls: 1980,” 33.

<sup>54</sup> Memo, William Miller to President Carter, 28 February 1980, “2/28/80” folder, Box 172, Presidential Handwriting File, Letter, Alfred Kahn to Betsy Hamilton, 2 February 1980, “Credit Controls, 1/80 – 5/80” folder, Box 13, Special Advisor – Inflation, Kahn, Jimmy Carter Library; “Withdrawal Pain for Credit-Card Holders,” *Newsweek*, 31 March 1980, 29; Memo, From Burke Dillon to Charlie Schultze, 27 February 1980, “[Staff Files]: Dillon, Burke [1],” folder, Box 147, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library. Specifically, according to the policy announce on 14 March 1980, the Federal Reserve required lenders whose outstanding consumer credit portfolio totaled more than \$2 million to deposit 15 percent of all *new* credit extended in non-interest bearing accounts, though this had not been decided by the period under discussion.

The extreme stickiness of consumer loan rates over the past two years would indicate that most lenders will probably...absorb the costs. There are a number of reasons for this stickiness – usury ceilings are certainly the most important, but the administrative costs of making periodic changes in consumer lending rates as well as concerns about customer relations probably also play a role...A quick perusal of information provided by the [American Bankers Association] indicates that most states have limits of 18 percent or less and many states have limits of 12 percent or less....and most retail and bank card rates for charge purchases have been stuck at 18 percent for years. Absent widespread revisions in usury laws, it is unlikely that a deposit requirement will result in a general or major increase in lending rates. It will simply make consumer lending even less profitable than it is now.”<sup>55</sup>

The only loose threads in this strategy were national banks, which, falling under federal regulation, were permitted to charge interest rates one percent over the Federal Reserve’s discount rate or state usury ceiling, whichever was greater. Still, most adhered to their local laws, but, as the report noted, “Citibank (a national bank) has just caused a stir by raising its consumer loan rate to 14 percent,” an action, the CEA feared, “could set off a major move by national banks which might then result in changes to local laws.” This concern, though, was not revisited, and the White House’s economic staff moved forward with planning the controls.<sup>56</sup>

While the staff had a strategy, they needed a conspicuous target, and they quickly began to build their plan around the most visible form of consumer credit: the credit card. Citibank’s “drop” of 20 million pre-approved card applications and the subsequent acceleration of bank card solicitations over the succeeding two years placed cards in front of the public as the prime symbol of credit buying, and in the fronts of consumers’ wallets as they sought to buy ahead of inflation. As one administration report noted, “Although no data are available, the apparent increase in availability and more aggressive marketing of bank credit cards in recent years may have led to...a shift” toward their increased use. Placing controls on cards, then, could curtail the

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<sup>55</sup> Memo, From Burke Dillon to Charlie Schultze, 27 February 1980, “[Staff Files]: Dillon, Burke [1],” folder, Box 147, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library.

<sup>56</sup> Ibid.

sort of indulgent, inflationary spending the administration sought to curb, while sending a clear message to consumers about Carter's sincere desire to beat inflation.<sup>57</sup>

In early March, the President's economic advisors convened a summit at Camp David, reminiscent of Carter's meetings before his "Crisis of Confidence" Speech, to assess the viability of the credit control policy as well as other anti-inflationary initiatives then under consideration. Hundreds of representatives from various sectors of society – business, the elderly, African Americans, consumers, organized labor, and ethnic groups – were invited to attend. At these meetings, junior economic staff consulted these leaders, seeking their opinions of the administration's anti-inflationary policy options. While most groups, including African American, elderly, and ethnic leaders, all voiced strong support for the control measures, business leaders expressed "universal opposition" to the idea of credit controls. Bankers, especially were incensed, and argued that, if left alone, credit markets would freely adjust without the unwanted interference of the administration. Citibank went so far as to take out full page ads in the *New York Times*, *Washington Post*, and *Wall Street Journal* denouncing credit controls and insisting, "There may be policy makers who believe this to be in the national interest but it is doubtful that many citizens will find it to be in theirs (Figure 1)." Despite this opposition, on March 12<sup>th</sup> the President gave the final go-ahead on the program, which he announced to the nation on March 14<sup>th</sup>.<sup>58</sup>

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<sup>57</sup> Memo, Burke Dillon to Charlie Schultze, 10 April 1979, "Consumer Credit Controls" Folder, Box 14, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library.

<sup>58</sup> Memo, Al McDonald to President Carter, 7 March 1980, "3/7/80" folder, Box 173, Presidential Handwriting File, Jimmy Carter Library; Memo, The Department of the Treasury to President Carter, 12 March 1980, "3/14/80 [1]" folder, Box 173, Presidential Handwriting File, Jimmy Carter Library; Advertisement, Citibank, "Credit Controls – Pushing a String," *NYT*, 3 March 1980, A10; *WP*, 3 March 1980, A16; *WSJ*, 3 March 1980, 5; Shreft, Credit Controls: 1980," 33.

Unbeknownst to White House economists, however, the state usury laws on which the control plan was premised were soon to be obsolete. Recognizing the value of *Marquette*, Citibank, under Walter Wriston's direction, pushed the meaning of "located" one step further. Citi executives saw an opportunity to save their credit-card business and perhaps the bank itself by relocating the operation to a high-usury state, a move that was legally possible, but only if another state invited them in. Once there, following the lead of First of Omaha, Citi could export higher interest rates back into New York and to its credit-card customers across the country. But where could Citi go? In early 1980, Citibank's lawyers set to narrowing their list, first to states with usury ceilings at 22 percent or higher, then to states with legislatures still in session, and finally to states other than California (it being inconceivable that Bank of America's home state would welcome Citi in). The final list was short; Citibank executives had Missouri and South Dakota from which to choose. With a large labor pool and an established communications infrastructure, Missouri seemed the obvious choice, and the 2,000 jobs Citi promised guaranteed the bank a thoughtful hearing from Missouri legislators. Unfortunately, the state's banking community was not as welcoming; St. Louis bankers were still irate at Citi's earlier unsolicited incursions into "their market," and blocked the move.<sup>59</sup>

That left South Dakota, a state not generally known as a national center of banking and finance. In fact, in February of 1980, when Citi executives began deluging the governor's office with calls, the only thing South Dakota was the center of was a financial mess. The state's largest railroad, which carried a significant portion of the area's agricultural products to market, was bankrupt, later to be purchased by the state itself, which was also on the verge of bankruptcy. The farm sector was reeling from the recently announced grain embargo of the

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<sup>59</sup> Zweig, *Wriston*, 553, 678-679, 681. The Douglas Amendment to the Bank Holding Company Act of 1956 provides this exception to the branching restrictions prescribed by the McFadden Act.

Soviet Union, implemented by the Carter administration in response to the USSR's invasion of Afghanistan in December of the previous year. In the space of two January days, South Dakota farmers lost an estimated \$90 million as grain markets across the Midwest collapsed.

Additionally, non-agricultural workers in South Dakota, for the seventh year in a row, were the lowest paid in the nation, earning, on average, almost \$3,000 less a year than other Americans.

Recalling the period, South Dakota Governor Bill Janklow noted, "I lived in a state where the economy was, at that time, dead."<sup>60</sup>

Volcker's tight money policy compounded these problems, reaping financial havoc for small South Dakota bankers who did not have access to the economies of scale and cheaper money that banks like Citi enjoyed. Consequently, South Dakota banks were bumping up against the state's already high usury limit in their efforts to make local loans, squeezing out small borrowers and limiting local economic activity. To overcome this problem, the South Dakota Banker's Association, led by Thomas Reardon of Western Bank of Sioux Falls, boldly, and without the knowledge of Citibank, pushed for legislation to exempt all regulated lenders from the state's usury limit. The legislature complied, still holding loan sharks to a strict usury ceiling while allowing banks and other regulated lenders to raise interest rates at will.<sup>61</sup>

With his state's dire situation in mind, Governor Janklow, along with the state's capital strapped banking industry, did not need much convincing to see the benefits Citibank, and the *Marquette Decision* more broadly, could bring to his state. "I've never been more excited than I am today," Janklow declared as Citi officers toured Sioux Falls, South Dakota's largest city,

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<sup>60</sup> "Gov. Offers State-Owned Rail Plan," *The Daily Capital Journal, Pierre, South Dakota* (hereafter *DCJ*), 23 January 1980, 1; "Janklow's Austerity Program Appears Popular With People," *DCJ*, 2 January 1980, 2; William Janklow, Interview, 24 August 2004, in PBS, *Frontline*, "Secret History of the Credit Card," <http://www.pbs.org/wgbh/pages/frontline/shows/credit/interviews/janklow.html>; "South Dakota's Farm Loss Now \$90 Million," *DCJ*, 11 January 1980, 1; "Still Last in Salary Scale," *DCJ*, 24 January 1980, 1.

<sup>61</sup> Douglas J. Hayek, "South Dakota Takes Center Stage: Remembering the Father of the 'Citibank Bill,'" *North Western Financial Review*, 15 September 2004, 13-14, 16.



adding, “We may have some very sizable growth in our economy.” Armed with a new appreciation for banking law provided by Citibank executives, Janklow set to rolling out the red carpet, not just for Citi, but for any card-issuing bank willing to set up shop in South Dakota. The governor even went so far as to send engraved invitations to most large US banks, reading: “The State of South Dakota cordially invites you to a Douglas Amendment exception to the Bank Holding Company Act of 1956,” a tongue-in-cheek reference to the legislation that allowed South Dakota to invite Citi into the state.<sup>62</sup>

Needless to say, the match was made. Citibank lawyers drew up the enabling legislation allowing Citi to formally relocate its credit card operation to South Dakota, and on March 12, 1980, the bill cleared both houses of the states legislature by a combined vote of 97-3. Still, while the ink was drying on Bill Janklow’s signature and with it a new map of the nation’s credit cartography, Citi’s relocation was neither immediate nor assured; Citi needed to gain approval from the Comptroller of the Currency and Federal Reserve to consummate the move, a process that would drag on much longer than expected. While in March of 1980 Citi’s credit czar John Reed announced the bank’s intention to celebrate the Fourth of July in Sioux Falls, Citibank South Dakota would not formally open until February 1981.<sup>63</sup>

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In 1930, as he defended what he saw as an ideal system of small, independent unit banks against the arguments made for branch banking, Henry M. Dawes, primary author of the McFadden Act, had returned as he often did to the importance of local ties and personal connections in the business of banking: “As a member of the community in which he operates,” Dawes wrote, “the

⁶² Jon Walker, “Citibank Here Today to Check Out City,” *SFAL*, 10 March 1980, A1; Zweig, *Wriston*, 691.

⁶³ Janklow, *Frontline* interview; David Guarino and Jon Walker, “Citibank: We’re on Our Way to S.D.,” *SFAL*, 13 March 1980, A1; Robert Burns, “Citicorp One Step Closer,” *DC J*, 20 November 1980, 3; Jon Walker, “Citibank Awaits Permission to Move,” *SFAL*, 27 March 1980, D1; Tony Brown, “Citibank of S.D. Opens, Thanks to Helpful Usury Law,” *SFAL*, 20 February 1981, C1.

unit banker is in a position to appraise the public needs and administer them more sympathetically and more intelligently than the absentee banker.”⁶⁴ By the late 1970s, however, millions of Americans began having their credit needs met by absentees, as Citi and other banks spread cards across the national landscape.

This trend marked a dramatic redrawing of the nation’s consumer credit geography, one that troubled Carter and his advisors – more out of concern for indulgence and inflation than distance – eventually spurring the administration to take action to curtail the expansion of consumer credit. But in this regard Volcker’s monetarism preempted Carter’s moralism, constraining the economy and pushing bankers to seek new solutions ahead of the White House’s credit controls. As the next chapter will show, the Fed’s actions would undermine CCA’s effectiveness, or, rather, compound its deleterious economic effects, while also enabling banks to escape some regulatory boundaries on their capital altogether, placing new physical and political distance between themselves and their card-carrying customers.

⁶⁴ Henry M. Dawes, “In Defense of Unit Banking,” in Virgil Willit, ed., *Selected Articles on Chain, Group and Branch Banking* (New York: The H. W. Wilson Co., 1930), 255.

Figure 1: Credit Controls – Pushing a String. Source: Advertisement, Citibank, “Credit Controls – Pushing a String,” *New York Times*, 3 March 1980, pg. A10.

Credit Controls— Pushing a String

A gardener trying to make the grass grow taller in the sparse patches on his lawn by cutting it shorter somewhere else might fairly be told that he doesn't know much about grass. Yet governments, in their persistent effort to control the distribution of credit in American society, repeatedly employ precisely the same method and with equally bad results. The danger of these exercises is that while no lawn is ever improved in this way, its healthy portions may be easily and severely damaged.

All governments, ancient and modern, have at one time or another been seized by an urge to use some form of credit allocation to make credit appear at a time or place where it would not otherwise go.

The problems with political credit allocation are intrinsic to the credit process itself. Credit exists because some people are willing to pay for the use of other people's money, and those others are willing to lend their money because they like to collect rent, in the form of interest, on property for which they have no immediate use. In the market thus created, each participant vigorously pursues his or her own self-interest; lenders, savers, and investors-consumers all try to achieve the highest possible return on their money, after taking due account of the risks, while borrowers strive with equally strong desire to minimize their interest costs. Efforts to allocate credit by government fiat come into conflict with these very human but relentless forces, and so governmental machinery for the allocation of credit never works.

This history of failure has not deterred the Government of the United States from trying repeatedly over the past fifty years to control the flow of credit by specific efforts to favor some borrowers and lenders while penalizing others. By recent count, these sporadic efforts have left us with some 150 laws and major regulations telling us what we

may and may not do with our money. The restrictions most frequently encountered by the average citizen are those that limit the interest he can collect on his savings account, and that forbid him to be paid anything at all for the money he keeps in his checking account. Most regulations produce their effects more subtly and less directly, but the effects are pervasive and no one escapes their operation.

History is not lacking in examples from the past. Ever since mercantilism replaced feudalism the temptation to regulate labor, land and money has been irresistible. On May 6, 1795, the justices of Berkshire, England, met at Speenhamland. They set forth a scale of wage subsidies tied to the price of bread, so that a minimum income would be assured to workingmen irrespective of their wages. It was a time of great social distress in England, and the Speenhamland scales were intended as emergency measures. In short order, the subsidies spread through most of the country.

"No measure was ever more universally popular," according to the late Dr. Karl Polanyi. "Parents were free of the care of their children, and children no more dependent upon parents; employers would reduce wages at will and laborers were safe from hunger whether they were busy or slack; humanitarians applauded the measure as an act of mercy even though not of justice and the selfish gladly consoled themselves with the thought that though it was merciful at least it was not liberal."

In the long run the result was disastrous. Wage subsidies, paid from public funds, removed the floor from wage levels, which sank steadily until poor relief was preferable to working. The Speenhamland law was repealed in 1834.

There are many parallels in today's society to Speenhamland's attempt to push a string, well inten-

tioned and potentially disastrous to all concerned.

Most citizens are unaware of the provisions of the Credit Control Act of 1969. This singular piece of legislation empowers the federal government to determine which citizens of the United States may borrow money, from whom, and how they are allowed to spend it. Not generally, but specifically and in detail. It arms the President with sweeping authority to license all lenders, register all loans, prohibit credit for purposes deemed inappropriate, prescribe maximum amounts of loans, establish maximum rates of interest, minimum down payments on purchases, and conditions for the repayment of loans. The government has never yet invoked these standby powers. But they are there, and others are now proposed.

The credit allocator's quandary is that, in the final analysis, he cannot hope to control anything unless he controls everything. If mortgage credit is cheap enough, the home owner can enlarge his mortgage and spend the money for anything he chooses, including the purchase of scarce commodities. Or a person can borrow on his or her life insurance at low interest rates set by law, thereby reducing the pool of funds that the insurance company has to invest in bonds and mortgages. To the committed allocationist the final solution is obvious: he must not only control the way our citizens lend or borrow money, but he must also control the way they spend it. And so on and on to price controls and the disasters of Speenhamland all over again.

There may be policy makers who believe this to be in the national interest, but it is doubtful that many citizens will find it to be in theirs.

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A fuller discussion of this topic can be found in *Credit Allocation: An Exercise in the Futility of Controls*. Copies of this Citibank study are available from Citicorp, Public Affairs Department, 99 Park Avenue, New York, N.Y. 10022.

CITIBANK + CITICORP

CHAPTER 4

NEW FREEDOM, NEW FRONTIERS

On September 3, 1982, Ronald Reagan appointed Citicorp Chairman Walter Wriston as Chairman of the President's Economic Policy Advisory Board, a group of business leaders, economists, and former high-ranking public officials organized, as the name suggests, to advise the president on the country's economic policy. In this capacity, Wriston was in distinguished and ideologically sympathetic company; also serving on the board were Alan Greenspan, Milton Friedman, Arthur Laffer, and a number of other notable champions of the neoliberal doctrine given state sanction under Reagan's reign. At the moment, Wriston was at the height of his influence and his appointment came as his bank was reaping record profits. In the third quarter of 1982, while most corporate earnings were sliding in a deeply recessed economy, Citi achieved a 56 percent increase in operating profit, banking \$210 million for its shareholders. Though the bank would begin to be threatened by the third-world debt crises in 1983, ultimately requiring a very un-neoliberal government bailout by way of the International Monetary Fund, Wriston remained the face of the banking industry's dramatic geographic transformation and with it a new era of unregulated business freedom. "Once bland and dull," wrote *New York Times* columnist Robert Bennett, "banking has become expansive and exciting, a testament to Mr. Wriston."¹

¹ Ernest Holsendolph, "Washington Watch," *New York Times* (Hereafter *NYT*), 6 September 1982, 34; Lydia Chavez, "3d-Quarter Profits Fell 15% to 20%: Weak Demand Offset Interest Rate Declines," *NYT*, 25 October 1982, D1; Robert A. Bennett, "Wriston: A Summing Up," *NYT*, 21 June 1984, D1, D19. As economist David Felix notes, "For Wriston and Simon...pure laissez faire is for others, not for themselves." David Felix, "Asia and the Crisis of Globalization," Dean Baker, Gerald A. Epstein, Robert Pollin, ed., *Globalization and Progressive Economic Policy* (Cambridge: Cambridge University Press, 1998), 190 n22.

In September 1982, Reagan was not as well positioned. The new president's innovative economic policies had failed to yield positive results, and though inflation was abating under Volcker's relentless pressure, unemployment continued to rise, reaching ten percent in the month of Wriston's elevation. Reagan's place in the conservative pantheon was far from secure. The economy, though, would turn around, spurred in many ways by the President's embrace of a resurgent borrow-to-buy ideology, evidenced both through his comfort with astronomical deficits and his buoyant rhetoric, which urged consumers to enjoy the bounties of American prosperity in the face of escalating income inequalities. This strategy was no secret, and both the Mondale campaign in 1984 and Michael Dukakis in 1988 tenaciously attacked the Reagan administration's "credit card mentality." Credit, though, kept the economy afloat and with it voters' support for Ronald Reagan, a fact not lost on future chief executives. Indeed, the President's successor, George H. W. Bush would ask card companies in 1991 to reduce interest rates, not so consumers would be charged less, but so they would be induced to buy more.²

Yet, while the new Right's laissez-faire revolution was financed by the open embrace of public and private debt, to a certain extent Reagan owed his election to an opposing mentality. Carter's implementation of the Credit Control Act had emerged from a deep concern about the economic and social consequences of the emerging debt-economy, and in March 1980, consumers took up the President's call for restraint, briefly rejecting credit-fueled consumption and the cards that facilitated it. While likely gratifying to Carter, consumers' actions, when coupled with lenders' simultaneous monetarism-induced retreat from credit markets, quickly

² Paul Taylor, "Candidates Joust Over Deficit," *Washington Post* (Hereafter *WP*), 9 September 1984, A1; Michael Dukakis, "Presidential Debate at the University of California in Los Angeles, October 13, 1988," John T. Woolley and Gerhard Peters, ed., *The American Presidency Project*, <http://www.presidency.ucsb.edu/index.php> (hereafter cited as *American Presidency Project*); Peter Pae, "President Urges Banks to Lower Rates on Credit Cards to Stimulate Spending," *Wall Street Journal* (Hereafter *WSJ*), 13 November 1991, A3.

plunged the economy into a sharp recession and Carter into an electoral hole from which he could not escape. At the same time, Carter's controls aided Wriston's Citi and other banks, which were able to increase the cost of credit under the guise of federal intervention, saving themselves from their own mass-solicitation mismanagement. This action occurred as part of a different sort of free-market revolution, headed by Citibank as it worked to complete its relocation to South Dakota, and with it usher in a new period of placeless capital. But while Citi's move again remapped the geography of consumer credit, further distancing consumers from the source of their funds, it also bounded Citibank into a new set of community relationships, though ones in which the bank would clearly have the upper hand.

While the implementation of the Credit Control Act (CCA) emerged from the depths of the economic policy apparatus, Carter's papers evidence an acute personal interest in the measures to limit the use of credit cards. As an avowed southern populist "having almost an obsession about the burden of excessive debt," the President strongly favored measures that would shield consumers from the seeming ravages of this excess. As discussion of the policy progressed within the administration, Carter made notes to himself about consumer credit, and specifically underlined "control of some types of consumer credit, specifically credit cards" in a memo from the Treasury Department. Further, as the White House prepared to unveil the policy, Carter edited a draft copy of the announcement speech to include "credit cards," text that had not been part of the original, which he went on to underline in the final draft of the speech.³

³ Meeting Notes, President Carter, 28 February 1980, "2/28/80" folder, Box 172, Memo, William Miller to President Carter, 29 February 1980, "2/28/80" folder, Box 173, Presidential Handwriting File; Draft Speech, President Carter, 14 March 1980, "3/14/80 [1]" folder, Inflation Announcement, President Carter, 14 March 1980, "3/14/80" folder, Box 175, Presidential Handwriting File, Jimmy Carter Library.

The announcement itself had much in common with the President's "Crisis of Confidence" speech nine months earlier. Carter began by detailing what he believed to be the causes of inflation, one of the most important of which was "our failure in government and as individuals, as an entire American society, to live within our means." He called for discipline, strong medicine, and stern measures, embodied on the governmental side by his promise to balance the 1981 budget. The state had not provided a suitable example of frugality and fiscal responsibility to the people, and as a consequence, Carter lamented, there would have to be "cuts in good and worthwhile programs—programs which I support very strongly." Citizens, too, had not done their part, and "consumers [had] gone in debt too heavily." Speaking as much as disappointed father than as President, Carter implored Americans to shift from spending to saving. Finally, the President made very clear what he thought was at stake:

By taking control of this problem—which involves taking control of ourselves—we can put an end to the fear about the future that afflicts so many of our own people and so many of our institutions. In the fight against inflation, what is at stake is more than material wealth or material comfort. What is at stake is whether or not Americans—as a nation and as a people—will retain control of our own destiny.⁴

Though the speech was full of Carter's patented moralism, the President's discussion of the Credit Control Act was relatively brief. In a scant two sentences, he indicated that he was employing the act, that the Federal Reserve would "establish controls for credit cards and other unsecured loans," and that loans for homes, cars, and other durable goods would not be covered by the policy. Yet while his description of controls was limited, Carter's message was clear: Americans were living beyond their means and credit cards were partially to blame. Further,

⁴ Carter, "Anti-Inflation Program Remarks Announcing the Administration's Program," *American Presidency Project*, 14 March 1980.

because citizens could not control their collective urge to “charge it,” the government was stepping in to assist them.⁵

What was less clear, however, was how “controls for credit cards and other unsecured loans” would actually work. The task of drafting the final policy was assigned to the Federal Reserve, which rolled out the full details of its control plan a few hours after Carter’s speech. Though Carter emphasized credit cards, the Fed set out to constrain consumer credit broadly, placing restrictions on “credit cards, check credit overdraft plans, unsecured personal loans and secured credit where the proceeds are not used to finance the collateral.” To do so, the Fed required lenders who extended unsecured consumer credit, and who had \$2 million or more of such credit outstanding, to deposit 15 percent of all new credit extended with the Federal Reserve in non-interest bearing accounts. Under this plan, for each dollar lent to consumers that earned interest, the lender also had to set aside 15 cents that did not. Because lenders still had to pay a high rate of interest to their depositors on the money that simply sat at the Fed, this special deposit significantly increased the cost of consumer lending.⁶

Instead of providing guidance on how best to allocate these new costs, however, the Fed left it up to lenders to determine the best way to administer controls. With usury ceilings still in place in most states, the Federal Reserve anticipated that lenders would not be able to simply pass the increased cost on to consumers, and would instead have to curtail consumer lending activities or redirect funds toward more “productive purposes,” such as mortgage or business loans. As a consequence, the Fed hoped, more capital would become available in these sectors, driving down interest rates and with them a significant source of upward pressure on prices.

⁵ Ibid.

⁶ Roger S. White, Federal Reserve, “Federal Reserve System Special Anti-Inflation Programs Announced March 14, 1980: A Brief Description,” Report No. 80-73 E, 2 April 1980, 5.

Further, as credit-fueled consumer demand diminished, inflation would also decline in this sector.⁷

In light of the administration's previously unsuccessful bouts with inflation, some in the press were hesitant to accept Carter's old-time religion and the Federal Reserve's logic. Observers felt strongly that the White House was offering up a new slate of misguided and wrongheaded programs that, like all of the administration's anti-inflationary measures before them, were doomed to fail. In his weekly column "Economic Focus," *Washington Post* editor Robert J. Samuelson argued that credit controls amounted to a knee jerk reaction from policy makers bent on satisfying citizens' calls to "do something," while failing to attack inflation's underlying causes. "Anyone who believes credit cards have much to do with the nation's inflation," quipped Samuelson, "probably also thinks you can get to China with a pick and shovel." A more evenhanded article in *Time Magazine* called many of Carter's new policies into question, noting specifically that, "Controls on credit-card debt, in the opinion of many economists, will have only a marginal impact on inflation." The measures, in this sense, seemed largely symbolic.⁸

Those within the credit industry offered a similar, if self-interested, indictment of the controls. Initially, as the policy was being considered in March, several credit industry executives wrote to the President, lampooning the idea of credit controls. In a statement aimed toward a key group of Democratic constituents, Finn Caspersen, president of the Beneficial Corporation, argued that "Ironically, such controls, when they are effective, discriminate against those who can least afford it, the poor, and the financially pressed middle class." Carter received

⁷ Ibid.

⁸ Robert J. Samuelson, "Credit-Card Debt Isn't the Problem," *WP*, 8 April 1980, D7; "Jimmy Carter vs. Inflation," *Time Magazine*, 24 March 1980, <http://www.time.com/time/magazine/article/0,9171,921854-7,00.html>.

numerous additional letters expressing similar concerns, prompting Alfred Kahn, the President's Special Advisor on Inflation, to resort to a form letter to expedite responding to them all. Walter Wriston went one step further, taking his objections directly to the people in a *Washington Post* Op-Ed in which he declared that controls would not work and never had worked. "The vision of controls," Wriston wrote, "is the old story of hope over experience." After controls were implemented, such sentiment continued. *The Nilson Report*, the leading credit-card industry newsletter, argued that the government had overstepped its authority, predicting that consumer outrage would erupt, and lamenting that "The credit industry is entering an era of unstability [sic] that will not be resolved easily or soon." Not all lenders opposed the move outright, and the editors of Jesse Helms's old *Tarheel Banker* even praised Carter's stand against inflation, just as long as "the controls will be lifted in due course without becoming a permanent fixture."⁹

Still, despite the administration's previous anti-inflation blunders and such nay-saying in the press, many consumers avidly bought into Carter's call for a more judicious use of credit, voicing support in the media and at the cash register. From the outset, the policy elicited a public examination of Americans' emerging buy-now-pay-later mentality, prompting citizens to take an introspective look at the burgeoning plastic economy. "Isn't our present dilemma caused by the 'now' syndrome," asked a concerned citizen writing to the *Washington Post*, "wanting things now instead of waiting until we can afford them?" The answer offered by many, as Carter had

⁹ Letter, Finn Caspersen to President Carter, 29 February 1980, "Credit Controls, 1/80 – 5/80" folder, Box 13, Special Advisor – Inflation, Kahn; Letter, Betsy Hamilton to Alfred Kahn, Letter, Walter R. Kurth to President Carter, 4 March 1980, Letter, John G. Bull to President Carter, 7 March 1980, Letter, Verrick French to President Carter, 4 March 1980, Letter, Eugene F. Rowan to Alfred Kahn, 12 March 1980, Letter, Alfred Kahn to Betsy Hamilton, 2 February 1980, Letter, Alfred Kahn to Finn Caspersen, 11 March 1980, Letter, Alfred Kahn to Verrick French, 11 March 1980, Letter, Alfred Kahn to Walter R. Kruth, 11 March 1980, Letter, Alfred Kahn to Reece Overcash, 11 March 1980, Letter, Alfred Kahn to John G. Bull, 27 March 1980, "Credit Controls, 1/80 – 5/80" folder, Box 13, Special Advisor – Inflation, Kahn, Jimmy Carter Library; Wriston, "Outsmarting Inflation," *WP*, 13 March 1980, A19; "Feds Have Overstepped Legal Authority in Credit Controls," *The Nilson Report*, Issue 232, March 1980, 1, 10; "Comment: The Fed Gets a Big Order," *The Tarheel Banker*, April 1980, 14. Beneficial Corporation was a national chain of small loan lenders which specialized in personal loans to consumers.

hoped, was a resounding “Yes!” By the end of April, the *Wall Street Journal* was reporting a robust 70 percent approval rating for Carter’s credit crackdown, a rather miraculous number for a president who, with an overall approval range hovering between 30 and 40 percent, was hardly esteemed in the public mind. As Volcker would comment in late July, “We, in fact, took the mildest action that we could conceive of, but there was clearly a physiological message.”¹⁰

Indeed, Carter’s moralizing message had substance behind it, and tapped into deeper currents of concern flowing through American society. The democratization and expansion of credit cards during the previous decade contrasted sharply with oft-espoused ideals of thrift and moderation, as did the increasing use of consumer debt to fund conspicuous consumption. At the same time, though, postwar purchaser-as-citizens had learned to equate consumption with the public good, a view challenged as their ability to consume without resorting to credit diminished. Still, for many the mythologized Weberian ideal more perfectly defined acceptable American cultural values, and the crackdown on credit was heralded as an idea whose time had come. By the end of March, the writers of *Newsweek* were suggesting that, “for the short term at least, the instant-gratification society would have to forego some of its credit-card pleasures,” while an opinion letter written to the same magazine gushed, “I’m in full support of President Carter’s anti-inflationary attack on the use of credit cards...I am glad to see someone has intervened in this craze.”¹¹

¹⁰ Hewitt Crosby, “‘Now’ Syndrome, *WP*, 19 March 1980, A18; Jeffery H. Birnbaum, “Tight City: Are Credit Curbs Doing the Job? People In Rochester, N.Y., Are Sorry to Say Yes,” *WSJ*, 23 April 1980, 48; “How the Presidents Stack Up,” *WSJ*, <http://online.wsj.com/public/resources/documents/info-presapp0605-31.html>; Paul Volcker, Congress, House, Subcommittee on Consumer Affairs and Coinage of the Committee on Banking, Finance, and Urban Affairs, *Federal Reserve’s Second Monetary Policy Report for 1980*, 96th Cong., 2nd Sess., 21-22 July 1980, 110.

¹¹ Lizabeth Cohen, *A Consumers’ Republic: The Politics of Mass Consumption in Postwar America* (New York: Vintage Books, 2003), 8-9; “The Credit-Card Crunch,” *Newsweek*, 24 March 1980, 26; Jerry L. Hunter, “Letters,” *Newsweek*, 14 April 1980, 6.

Americans expressed this view directly to the White House, personally writing the President to show their favor for the new policies. “We are supporting you sir, one-hundred percent,” wrote Dennis Gordon of San Francisco, California, “We are spending with more wisdom and not as frequently.” Some citizens even began to see credit card usage as unpatriotic, vilifying lenders who had the audacity to increase their lines of credit. Concerned Americans mailed in offers of additional credit from card companies, suggesting that with these offers, credit card companies had given Carter, in the words of one correspondent, “another kick in the pants.” Alfred Khan remembered these letters years later, recalling in an interview, “Some people sent me credit cards, wrote irate letters to the effect that Sears Roebuck was still soliciting credit card accounts.” Finally, some businesses even undertook their perceived patriotic duty by discontinuing the acceptance of credit cards altogether. Divinyl Madness Records, a record store in Normal, Illinois, told the President that they would no longer allow credit card purchases, and further, they would be lowering most album prices by as much as 50 cents. After all, the telegram noted, “we are all in this together.”¹²

Quick to placate riotous customers, some card companies took steps to shield themselves from accusations of treasonous behavior by siding publicly with Carter’s policies. In a television advertisement set in front of the Capitol building in Washington, D.C., president of Interbank Card Association Russell Hogg, urged consumers to use their cards “only for necessities and emergencies.” American Express adopted a slightly different strategy, voicing support for Washington’s policies while concurrently distancing their card products from demon credit.

¹² Letter, Dennis Gordon to President Carter, 27 March 1980, “BE 4-2 4/1/80-4/15/80,” Box BE 20, WHCF-Subject File, Jimmy Carter Library, quoted in Stacey L. Schreft, “Credit Controls: 1980,” Federal Reserve Bank of Richmond *Economic Review* 76 (November/December 1990); Letter, Lloyd C. Yager to Alfred Kahn, 19 April 1980, “Credit Controls, 1/80 – 5/80” folder, Box 13, Special Advisor – Inflation, Kahn, Jimmy Carter Library; Fred Kahn, Miller Center Oral history, http://web1.millercenter.org/poh/transcripts/ohp_1981_1210_kahn.pdf; Telegram, Board of Directors Divinyl Madness Records to President Carter, 20 March 1980, “Credit Controls, 1/80 – 5/80” folder, Box 13, Special Advisor – Inflation, Kahn, Jimmy Carter Library.

"The American Express Card...offers no revolving, open-end credit," noted one advertisement, adding further, "You are expected to pay your bill in full every month. Since this helps you live within your means, you don't get in over your head." The language of the ad mirrored Carter's call for Americans to "live within our means," suggesting that American Express believed that its potential customers identified and supported the president's message.¹³

Statistical evidence strongly indicates that American Express's executives were making a safe bet. In the month following Carter's implementation of controls, the American Retail Federation commissioned a formal survey of consumer attitudes entitled "Americans View Inflation, The Public Policy Response, and the Retail Industry." In interviews with "1,503 adult Americans designed to reflect the views of the entire adult population," the surveyors noted that 63 percent of respondents believed Carter's credit controls were necessary, and almost as many intended to reduce credit purchasing in the months ahead. Further, this positive reception of controls translated into a dramatic increase in the citizens' belief that inflation could be conquered. "The data from this survey reveal that Americans have begun to view inflation as a potentially beatable phenomenon," the report noted, adding, "Indeed, seven Americans in ten now take the optimistic view that prices *will* be stable and that inflation is *not* a permanent fixture of American life." Finally, the report's conclusions echoed America's uneasy relationship with credit cards: "The fact remains that Americans are trying to cut back, have intended to for some time, and foresee a day when they can live their lives in a more manageable economic setting."¹⁴

¹³ Steve Lohr, "Buying Habits Found Unexpectedly Curbed by Controls on Credit," *NYT*, 9 May 1980, A1; Advertisement, "How Washington's New Credit Guidelines Affect the American Express Card," *Newsweek*, 14 April 1980, 7. The Interbank Card Association was the second largest interchange network, licensing card products under the trade name MasterCard.

¹⁴ "Americans View Inflation, The Public Policy Response, and the Retail Industry (Cambridge Reports, Inc., April 1980), pp. 4, 24-25, 31, in "Inflation, 8/79-4/80," Box 25, Special Advisor – Inflation, Kahn, Jimmy Carter Library.

Other sources corroborated these findings. A New York Times/CBS News poll taken in April found that 58 percent of Americans claimed to be using credit cards less than they had been the previous year, while only 5 percent claimed to be using them more. Outstanding consumer installment debt fell in that month by nearly \$2 billion according to one source, setting a record for the largest single month's decline while also registering the first decline since May 1975. Installment debt fell another 13 percent in May, prompting a Federal Reserve economist to later note that "outstanding consumer installment credit experienced its largest decline in the postwar period during the second quarter [of 1980]." Other economists, who initially had billed the clamp down on credit cards as largely symbolic, began to find that Americans were making a concerted effort to alter their credit and spending habits. "It may have been symbolic, but it was quite shocking," said S. Lee Booth, senior vice president and economist for the National Consumer Finance Association, "it made a lot of people rethink their credit practices."¹⁵

Within the White House, the withdrawal of consumers from credit spending was met with a complex mix of pleasure and dread. While it was apparent that the controls were having the desired effect, by early May some of the President's economic advisors were deeply concerned that the controls might have gone too far, prompting an economic slowdown as consumers withdrew from the marketplace. Inflation was not a condition the incumbent administration wanted to be saddled with during an election year, but neither was a collapsing economy. Consequently, in preparation for a May 6th meeting of the President's economic team, CEA Chairman Charlie Schultze expressed concern that "many consumers believe the use of credit cards is now illegal or unpatriotic," and asked if the administration ought to counter these

¹⁵ Lohr, "Buying Habits Found Unexpectedly Curbed by Controls on Credit," *NYT*, 9 May 1980, A1; "Consumer Debt Down Sharply," *NYT*, 7 June 1980, 25; Stacey L. Schreft, "Credit Controls: 1980. The decline in 1980 remained the largest, as a percentage of total revolving debt outstanding, until the 2008 recession. Federal Reserve, "Consumer Credit Historical Data: Revolving," http://www.federalreserve.gov/releases/g19/hist/cc_hist_r.txt.

notions. The meeting did little to allay Shultze's fear, and a subsequent memo notified the President that Federal Reserve Chairman Paul Volcker was looking into whether consumers were over-reacting to the credit controls.¹⁶

In retrospect, consumers were, if not over-reacting, at least responding very strongly to the controls. As demonstrated above, this behavior partially stemmed from societal concern over credit-card proliferation, but it was augmented by a lack of clarity from the White House and the Federal Reserve about how controls were being administered and what they were meant to accomplish. While Carter was firm in his assertion that Americans had lived beyond their means and that credit cards were a notable culprit, the public was less quick, for obvious reasons, to grasp the implications of the Fed's required non-interest-bearing special deposit of 15 percent of all new credit extensions over \$2 million. The result was that, as the *Sioux Falls Argus Leader* reported, "President Carter's plan to limit the growth of credit to fight inflation has confused many consumers anxiously grabbing their cards, fearful that their buying power will be taken away." As a Sears executive recalled, "People thought they could buy a refrigerator and be an excellent citizen if they bought it on closed-end credit, but if you deigned to clothe your children and did it on open-end credit you were evil." Such sentiment hardly reflected the administration's goals, and served to constrain consumer credit purchasing far more than either the White House or the Federal Reserve expected.¹⁷

Faced with a potent mix of societal momentum and policy confusion, consumers rapidly retreated from credit purchasing. In March and April, for example, major national retailers who

¹⁶ Memo, Charlie Schultze to President Carter, 5 May 1980, "CEA Memos to the President, 5/80" folder, Box 54, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library.

¹⁷ Meryl Gordon, "Are You a Card-Carrying Inflation Fighter?," *Sioux Falls Argus Leader* (Hereafter *SFAL*), 21 March 1980, A1; Edward R. Telling, quoted in Jerry Knight, "Confusion Cited on Credit Curbs," *WP*, 20 May 1980, D7.

relied heavily on credit to drive sales saw double digit declines in credit purchasing. Sears saw earnings fall by 60 percent from the previous year, while J.C. Penney's earnings declined 58.9 percent. As significant evidence of consumers' retreat from credit cards mounted, the administration decided to back off the more draconian elements of the credit control policy, claiming in effect a moral victory over the inflationary psychology while continuing to urge Americans to practice moderation. At the same time, Chairman Volcker amended the policy, reducing the special deposit from 15 percent to 7.5 percent, enabling lenders to more easily offer credit to consumers. Still, Carter was not encouraging Americans to go shopping more. Instead, he warned that "we must not permit the ravages of recession to damage the progress that we've made."¹⁸

Consumers, though, accounted for only one side of the credit equation, and the pressure created by Volcker's tight monetary policy pushed many lenders to curtail the availability of credit for consumer purchases, a trend, in fact, that predated the implementation of controls. As early as February 1980, more than a month before the CCA went into effect, members of the Federal Open Market Committee (FOMC), the Federal Reserve Board's monetary policy arm, were beginning to take notice. At their February 5th meeting, Vice Chairman Frederick H. Schultz told other board members, "more and more banks are cutting back on the availability of consumer credit and are increasing the price and other factors. We're also seeing that with...retail establishments; Sears and Penneys and others have recently made those kinds of announcements." These businesses were collectively responding to the escalating cost of money, driven upward by the Fed's October 1979 decision to let the market set interest rates while the

¹⁸ Schreft, "Credit Controls: 1980," 42; Jerry Knight, "Confusion Cited on Credit Curbs," *WP*, 20 May 1980, D7; Memo, Charlie Schultze to President Carter, 5 May 1980, "CEA Memos to the President, 5/80" folder, Box 54, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library; Jimmy Carter, "White House Briefing for Community Leaders Remarks at the Briefing," 27 May 1980, *American Presidency Project*.

Fed focused on the absolute growth of the money supply. In doing so, the Federal Reserve effectively made the cost of issuing credit more expensive for banks, retailers, and other lenders, a cost that in some cases could be passed on to borrowers through higher interest rates or other finance charges, so long as those higher rates did not exceed local usury limits.¹⁹

In places where state usury legislation was in effect, lenders pursued a variety of strategies to cope with the Fed's policy. Some, as Schultz's statement suggests, simply lent less, allowing only the most credit-worthy clients access to funds. This may have worked for personal loans and some other kinds of consumer credit, but in the case of credit cards, such a strategy was not always an option. Most credit-card customers had a pre-arranged line of credit in place that could not easily be altered or revoked, especially if the bank had any hope of retaining the customer in the future. And since banks in particular had spent considerable capital building their credit-card businesses over the previous decades, most recently with the major direct mailing campaigns beginning in 1977, the idea of cutting off customers and sacrificing hard-won market share was not a savory one. Neither, though, was the prospect of escalating losses, and in a bid to eke out extra income without exceeding their local usury ceilings some banks and major retailers restructured their finance charges. In February, the Equitable Trust Bank of Maryland, the First & Merchants Bank of Virginia, and a number of other banks began charging Visa and Master Card customers interest from the day they made purchases, instead of allowing the customary 30-day grace period.²⁰

Indeed, while Citibank made the most dramatic move, fleeing New York for the more usury friendly climes of South Dakota, they were far from the only card-issuing bank that was

¹⁹ Frederick H. Schultz, Federal Reserve, Federal Open Market Committee, "Meeting of Federal Open Market Committee: February 4-5 1980," <http://www.federalreserve.gov/monetarypolicy/files/FOMC19800205meeting.pdf>, 43.

²⁰ Molly Sinclair, "Credit Card Users Face Higher Charges," *WP*, 22 February 1980, A1.

suffering; on March 7, a week before credit controls were implemented, FOMC member Thomas Timlen nonchalantly noted, “There is also a good deal of concern regarding losses on consumer credit cards, but that's news to no one.” Additionally, when Walter Wriston and other business leaders were consulted in the lead up to the CCA’s implementation, they expressed “Universal Opposition,” to credit controls, arguing that “Market forces are seen as working” to restrain consumer credit, “and would handle the problem.” They further pointed out that “credit controls would shift the blame of denial of credit to the President when, because of market forces, credit institutions would have to deny credit anyway.”²¹

As the executives predicted, credit controls greatly exacerbated the problems initiated by Volcker’s policies. While undertaking its move to South Dakota, Citibank stopped issuing new Visa and Master Cards altogether, even refusing requests from current customers. Chase Manhattan followed suit, while Manufacturers Hanover and Bank of America promised to “more rigidly scrutinize new card applicants” in a bid to limit credit extensions. Further, Bank of America, along with major retailers Sears and Montgomery Ward, raised the required minimum monthly payments on credit-card accounts in order to get customers to repay their balances faster. This move meshed with the White House and Fed’s goal of reducing the overall volume of consumer debt, but these changes in repayment policy did not conform with many state consumer-protection laws, which barred lenders from spontaneously manipulating repayment terms. Concerned that variations in state law would cause enforcement to “vary 50 different ways,” the Fed used its authority under the Credit Control Act to override these statutes, allowing lenders to increase consumers’ monthly payments as they saw fit. Thus, while the landscape of

²¹ Thomas Timlen, Federal Reserve, Federal Open Market Committee, “Meeting of Federal Open Market Committee: March 7, 1980,” <http://www.federalreserve.gov/monetarypolicy/files/FOMC19800307confcall.pdf>, 5; Memo, From Al McDonald and Anne Wexler, To EPG Steering Group, “Inflation Consultations,” Kahn, box 25, folder “Inflation – 8/79 – 4/80,” Jimmy Carter Library.

state usury legislation gave the CCA much of its potency, the Fed was willing to dispense with other local consumer protections when those laws conflicted with its objectives.²²

Still, while accelerating repayment periods and ceasing to issue cards served the administration's credit control goals, many actions taken by banks and other lenders emphatically did not. In this sense, while consumers and the administration alike might have seen the Credit Control Act's implementation as a way to rein in the inflationary excesses of the nation's card issuers, for many banks credit controls – like the 1970 ban on unsolicited mailings before them – marked an opportunity to rescue their business from the Fed's tight money policy and their own credit-issuing excesses. Though bankers predictably howled at federal intervention into the credit market, many of the nation's largest banks were at the same time losing millions on their credit-card portfolios, suffering, like Citi, under the combined weight of tight monetary policy and restrictive usury ceilings. "Putting faith in controls," Walter Wriston wrote in an Op-Ed piece for the *Washington Post* the day before Carter announced the policy, "is like saying: get a firm grip on the quicksilver." Through a peculiar bit of alchemy, however, bankers transformed quicksilver controls into solid gold.²³

In invoking his powers under the Credit Control Act, Carter gave bankers carte blanche to re-price their card products and point to the President as the culprit; this is exactly what they did. Across the nation, banks added annual fees, retroactively raised interest rates, booted marginally profitable customers, and undertook a variety of other measures to make their bank cards profitable under the guise of federal interference; some actions, like ceasing to accept new card applications, conformed to the goals of the credit control plan, but most others did not. As a

²² Isadore Barmash, "Debtor Beware: The New World of Money," *NYT*, 30 March 1980, F1; "Bank of America Reins In Its Lending, Calls on U.S. to Push Monetary Restraint," *WSJ*, 27 March 1980, 3; Jerry Knight, "Sears, Ward's Move To Restrain Credit," *WP*, 18 March 1980, A1; Jerry Knight, "Fed Tightens Crackdown on Credit Cards," *WP*, 3 April 1980, A1.

²³ Wriston, "Outsmarting Inflation," *WP*, 13 March 1980, A19.

result of the banking industry's antics the Subcommittee on Consumer Affairs for the House Committee on Banking, Finance, and Urban Affairs, undertook a study of bank activity following the March 14th announcement of credit controls. Basing their findings on the published changes announced by 89 bank card issuers, the committee found that "*Some creditors took actions that appear to be so drastic as to be out of proportion to the mere goal of credit restraint.*" Dee Hock, president of Visa USA Inc., offered a similar critique of card companies, taking an opportunity at the American Bankers Association's national bank card convention to chide fellow executives for their poor response to the credit crunch, noting that "We have been tested and found a bit wanting."²⁴

One such action, the imposition of annual fees, is illustrative. According to the committee's findings, more than half of the banks examined began charging an annual fee for the privilege of using their card, which on average amounted to \$14 a year. Banks had long coveted annual fees as a way to turn a profit from "deadbeats," customers who paid their cards off promptly each month and thus gained access to 30 days of free credit without paying interest on their balances (assuming the bank had not already done away with this grace period). The competition in the credit-card market, created by the mass-mailing tactics, kept banks from instituting these fees for fear that their customers would simply walk to the mail box and find a better offer. Recall that Marquette brought suit against First of Omaha because Marquette, limited by Minnesota law on the interest it could assess, charged an annual fee while First of Omaha did not. Alternatively, in early 1976, Citibank attempted to institute a \$6 annual fee for its cardholders, a move that was so reviled, as one Citibank chronicler recalls, "Angry

²⁴ Congress, House, Subcommittee on Consumer Affairs, *Credit Controls: An Evaluation*, 96th Congress, 2nd sess., 4 December 1980, 5, emphasis original; Nancy L. Ross, "Credit Card Firms Chided For Overreaction to Crunch," 18 September 1980, *WP*, B6.

cardholders stormed into branches and threw their cards in the tellers' faces, forcing Citibank to take special security measures;" and, of course, ditch the \$6 fee.²⁵

As Wriston and the other business leaders predicted when consulted before the Credit Control Act's implementation, the Carter administration inherited the blame for actions bankers were planning on taking anyway. Reporting on higher annual fees in June of 1980, the *Christian Science Monitor* reported, "The annual fees and higher interest rates brought on by President Carter's credit-tightening moves of three months ago may be here to stay." More blatantly, the Union National Bank of Wichita, Kansas, broke the news of its new annual fee by informing its customers, "Now UNB and other banks are forced, through changes in regulations, to also charge for this service." The Credit Control Act, spurred to use in many ways by the mass-solicitation strategies bankers employed to get their cards into consumer hands, also bailed these banks out, allowing them to restructure their product pricing. Though one exasperated economist claimed to the *Wall Street Journal* that "the bankers are totally baffled by the rules of the game," credit issuing banks knew exactly how to stack the deck. By 1981, annual fees became the industry standard, helping to transform bank credit cards into permanent profit centers.²⁶

²⁵ Congress, House, Subcommittee on Consumer Affairs, *Credit Controls: An Evaluation*, 96th Congress, 2nd sess., 4 December 1980, 11-12; Manning, *Credit Card Nation*, 5, 294; Zweig, *Wriston*, 550-551. The committee counted a bank issuing both Visa and Master Charge twice. In Citibank's case, their attempt to charge an annual fee also resulted in New York banning the practice, which further necessitated their South Dakota move.

²⁶ Lucia Mouat, "To Charge or not to Charge," *Christian Science Monitor*, 30 June 1980, 3; Congress, House, Subcommittee on Consumer Affairs, *Credit Controls: An Evaluation*, 96th Congress, 2nd sess., 4 December 1980, 4; Karl Brunner, quoted in Lindley H. Clarck Jr., "Speaking of Business: Credit Confusion," *WSJ*, 15 April 1980, 24. Reports of annual fees abound in this period, see for instance: "Chemical Bank Credit Rate Up," *NYT*, 29 December 1980, D4; "Credit Card Fees Planned," *The WP*, 2 April 1981, D2; Thomas Watterson, "Having a lot of Credit Cards can Cost You a lot of Money," *Christian Science Monitor*, 20 January 1982, 11; Robert A. Bennett, "Consumer Saturday; True Cost of Bank Services," *NYT*, 22 September 1984, 52.

Yet, while these strategies were detrimental to consumers, they effectively allowed banks and other lenders to keep their credit-card businesses intact in the face of the Fed's potent monetary policy and Carter's controls. Moreover, while credit controls were of limited duration – the Fed scaled back the program in May and lifted controls altogether in July – the new price paradigm adopted by banks in response to the policy endured, owing its longevity to the geographic transformation of consumer credit instigated by Citibank. Local consumer-protection and usury laws had constrained banks' behavior, limiting, to the extent that they were not overridden by the Federal Reserve, these institutions' ability to set the terms of consumer credit as they saw fit. Citibank's quest for mobility, however, drastically undermined such state regulation in the long term, injecting political as well as physical distance into consumer's credit relationships, further divorcing banks from their traditional ties to the places, communities, and constituents they served.

As credit controls unfolded in March and April of 1980, so too did Citibank's attempt to relocate its credit-card operation to South Dakota. At the time, thanks in large measure to the bank's 1977 nation-wide mass-mailing campaign, Citibank led the nation in credit card accounts with over 5.8 million Visa and Master Cards outstanding. Yet, the combination of high interest rates and New York's low usury ceiling cost the bank a reported \$81 million in financing losses for 1979, necessitating an immediate solution to the bank's credit card problem. South Dakota held the solution, and with promises of increased revenue and jobs – between \$45 and \$50 million in annual salaries, \$4 million in communication expenses, and \$14 million in postage and

supplies, as one estimate ran – the bank was able, in March 1980, to convince the state’s legislature to let the bank relocate there.²⁷

Although Citi offered a big boost to the Mount Rushmore State, South Dakota arguably offered Citibank much more. First, the state, as of February 19, 1980, had no applicable usury ceiling, granting Citi total freedom to set its credit-card rates at will. The state also had no personal or corporate income tax, instead relying on a statewide sales tax for the majority of its revenue. Further, by moving its card operation from Long Island, the bank stood to save immensely on real estate and labor costs, while South Dakota’s nationally central location allowed Citi to shrink its telephone and postal expenses. Finally, though Charles Long, Citi’s key negotiator in the deal observed, “South Dakota’s relatively low wage scale has nothing to do with the decision, and that neither does the lack of a state income tax,” any student of Southern industrialization or the “logic” of capital should feel free to doubt his sincerity.²⁸

Citibankers recognized a good deal when they saw one, and they were far from novices at the game of regulatory arbitrage; with locations across the globe, the bank was adept at exploiting differences in tax structure and regulatory requirements across geographies, and had done so to great profitability throughout the 1970s. Indeed, so frequent and blatant were these maneuvers that the Securities and Exchange Commission undertook a several-year investigation of the bank, which, while resulting in no formal charges, uncovered wide evidence of Citi’s use of offshore facilities in places like Nassau, Monaco, and the Channel Islands to avoid local banking regulations. As one commentator notes, “the real significance of Citibank’s activities...relates not so much to the question of illegality or wrongdoing as to the ease with

²⁷ South Dakota Banker Association, Executive Council Minutes, Pierre, South Dakota, 3 March 1980, 2; John Walker, “Citibank Could Bring 300-2,000 Jobs to S.D.,” *SFAL*, 5 March 1980, 1A.

²⁸ John Walker, “Citibank’s Hiring to be from Area,” *SFAL*, 17 March 1980, 2A.

which deals can be booked to any part of the world that happens to be convenient and the possibilities presented thereby for regulatory circumvention.”²⁹

Still, while Citibank had received an official invitation to conduct its arbitrage operations from South Dakota in March 1980, the bank still needed to gain permission from the Comptroller of the Currency and the Federal Reserve Board to consummate the move. This would not be a smooth process; Federal regulators looked askance at Citi’s relocation plans and quickly turned down Citi’s first application for a national bank charter, stating that it was too general. The bank reapplied in a more specific manner, which allayed some of the Comptroller’s objections but did not appease many of Citi’s opponents in New York and South Dakota. At a series of open hearings held by the Comptroller on July 15 and 17, 1980, in New York and Sioux Falls respectively, a number of protestants came forward to voice their opposition to Citibank’s move.³⁰

In New York, consultant Arthur Nitzberg began his objections by staking out an ideological opposition to credit cards, which he felt banks like Citi were using to replace traditional installment lending, at significant cost to consumers. These costs would only increase, Nitzberg argued, if Citibank were to freely set interest rates, as South Dakota law allowed. Further, “state usury laws,” Nitzberg pointed out, were “an integral part of the Federal Reserve program” to restrain the use of credit cards, and by seeking to relocate to South Dakota while the program was in effect, the bank appeared to be thumbing its nose at the Carter administration and the Fed.³¹

²⁹ Richard Dale, *The Regulation of International Banking* (Cambridge: Woodhead-Faulkner, 1984), 195-204.

³⁰ South Dakota Bankers Association, Executive Council Minutes, Pierre, South Dakota, 14 May 1980.

³¹ Arthur Nitzberg, quoted in Gary Bingner, *South Dakota Banking: The Lowdown on High Finance in Middle America, A History of the Citibank Revolution, 1980-1983* (1983), Draft Copy, South Dakota State Library, Pierre, South Dakota, 53.

Hammering this point home, Nitzberg accused Citi of conducting “an unseemly auction...dangling jobs and tax revenues before state legislatures” in an effort to gain the most favorable regulatory environment for its business. In light of the bank’s courtship of other states, notably Missouri, and its attempt to use the threat of a move to convince New York’s legislature to amend the state’s usury laws, this charge carried special weight. In the Comptroller’s hearing in Sioux Falls, banker Vincent Rossiter echoed this concern, wondering aloud, “If it leaves its traditional home...because it is miffed at the State Legislature...how much would it take to have Citicorp pull out of South Dakota.” To these charges, the Citibankers responded consistently that their application was in good faith, and if granted, they intended to have a national bank in South Dakota.³²

Citizens protesting Citi’s move were not only concerned about Citibank’s destination, but also worried about what the bank was leaving behind. The geographic regulatory restrictions that Citi sought to escape inculcated in banks and their customers a reciprocal belief in a bank’s obligations to the community it served. In this regard, Citibank was no different, as Pastor James Fitzgerald reminded the hearing, and by removing from New York he argued, Citi was abandoning its local obligations. “New York residents have nurtured Citibank and given Citibank the chance to become the giant it is,” Fitzgerald chided. “To forget your friends, to turn your back on those who have nourished you all along and given you growth, is something which should not be taken lightly.” Fitzgerald added that if the Citi move was approved, New York politicians should promise to withdraw all city and state funds from the bank, concluding, “New

³² Arthur Nitzberg, quoted in Bingner, *South Dakota Banking*, 53; Vincent E. Rossiter, quoted in Bingner, *South Dakota Banking*, 68; Pat Mulhern, Bingner, quoted in *South Dakota Banking*, 71.

Yorkers's [sic] money, public and private, should not be used to build the foundation for a house of South Dakota profits."³³

Citibank, though, was not left to face its detractors alone, and the bank's greatest support came from a seemingly unlikely group: the South Dakota banking community. The state's dire economic circumstances – caused by the long-term decline of family farming as a viable economic activity and a number of short-term shocks, including an embargo on grain headed to the Soviet Union, the bankruptcy of the state's main rail line, and Volcker's credit crunch – left the state's bankers desperate for options. South Dakota's bankers, like bankers across the country, were deeply embedded in their communities, and their prestige as well as their profits was intertwined with the economic prosperity of their customers. This concern was certainly self-interested, but nonetheless these bankers were committed to revitalizing their state's economy to what they saw as the benefit of all involved.

In this regard, Citibank made South Dakota bankers an offer they could not refuse. First, Citi, as outlined above, would bring jobs and other income to the state. Further, the bankers hoped, Citi would help attract “desirable commerce and clean industry,” while also providing financial services to South Dakota banks that could enable local bankers to serve their communities more effectively. Importantly, Citibank also agreed not to compete for local deposits or loans, and while Citi retained the ability to vie with South Dakota banks for local credit-card customers, at the time, the two major card-issuing banks serving South Dakota were

³³ James Fitzgerald, quoted in Bingner, *South Dakota Banking*, 56-57.

themselves out-of-state banks, the old rivals First National Bank of Omaha and Marquette National Bank of Minneapolis.³⁴

Seeing their interest aligned with Citi's, South Dakota bankers testified at the Comptroller's public hearings and wrote letters of support to the Federal Reserve. "Though it is not customary for a banking institution to write in support of a potential competitor," wrote a Sioux Falls banker to the Minneapolis Fed, "we...feel the proposal has great future potential for Sioux Falls and South Dakota and do support it wholeheartedly." Noting that "the state...is chronically a capital-short state," Sioux Falls banker Thomas Reardon expressed certainty that Citibank could help by injecting needed capital and providing a secondary market for South Dakota loans. By publically supporting Citi's move and mediating between the bank, the federal government, and their communities, South Dakota bankers reaffirmed their status of local economic leadership, even as they helped drastically detach Citibank from its geographic grounding.³⁵

Still, despite this support, Citibank's application dragged on through the rest of 1980, gaining final approval on January 19, 1981, the day before Ronald Reagan was sworn in as the 40th President of the United States. In the meantime, Carter's anti-consumer-credit message continued to create momentum for change in American society, even as the Fed wound down the credit control policy. In June, 1980, the House of Representatives passed legislation enabling retailers to offer an unlimited cash discount intended to encourage the use of cash over credit. By September, MasterCard released its first debit card product to the public, responding to

³⁴ Letter, Curtis W. Kuehn to Kenneth W. Leaf, "Citicorp application for a National Bank Charter in Sioux Falls, South Dakota," 19 March 1980, Citibank Correspondence Binder, Sioux Falls Chamber of Commerce, Sioux Falls, South Dakota.

³⁵ Ibid.; Thomas M. Reardon, quoted in Bingner, *South Dakota Banking*, 49.

consumers' continued withdrawal from the use of credit. The debit card, which drew funds directly from customers' bank accounts instead of relying on a system of open-ended revolving debt, offered customers the convenience of a credit card without the stigma associated with buying on credit. "Then came the Carter Administration's credit squeeze in March," announced *Time Magazine* upon the debit card's release, "Many people simply stopped using their cards, and some people even sent them to the White House as a symbol of swearing off demon plastic."³⁶

The momentum, though, would not last. Carter had asked the nation to examine its budding love affair with plastic money, but he would ultimately lose the 1980 presidential election, and with it his bully pulpit. Consumers, enamored of Carter's message if unsure of the CCA's implementation, slowed spending just as banks and retailers were curtailing lending, leading to a sharp retraction of the economy. While credit controls constructively caused the "largest decline" of consumer installment debt in the postwar period, as one study noted, they also brought on "the largest consumer recession" over the same span. From April to June, the nation's Gross National Product plummeted at an 8.5 percent annualized rate, while unemployment, which stood at 6.3 percent when controls were implemented, jumped to 7.8 percent by July, 1980, falling only to 7.5 percent by November. The economic news was not all bad, overall interest rates declined, with the prime rate falling from 19.5 percent in April to 11 percent in July, and inflation also fell precipitously. Still, though Carter would later blame

³⁶ "House Move Encourages Use of Cash, Not Credit," *WSJ*, 4 June 1980, 14; "Now It's the No-Credit Card," *Time Magazine*, 29 September 1980.

Volcker's tight monetary policy for the election year downturn, it was really credit controls that prompted consumers to put the brakes on spending and push the economy into a recession.³⁷

True to form, Carter couched the dour economic news in terms of shared sacrifice, but his opponent, Ronald Reagan, offered America a different vision of the country's future, crafting his campaign's message in direct opposition to Carter's "Crisis of Confidence" Speech and the moralizing tone of the incumbent's presidency. Instead, Reagan played the role of a latter-day Franklin Roosevelt, speaking with overwhelming enthusiasm about the greatness of America, not that which had passed, but that which had yet to come. In accepting the Republican presidential nomination, Reagan told his audience that "The American people...who created the highest standard of living, are not going to accept the notion that we can only make a better world for others by moving backwards ourselves." He further enjoined Americans, "We do not have inflation because, as Mr. Carter says, we have lived too well." The nation's citizens, in Reagan's view, had not lived beyond their means; their means, like those of their nation, were infinite.³⁸

Still, Carter fought tenaciously, and on October 28th, just seven days before the election, he was polling ahead of Reagan in the most recently released Gallup poll. On this date, though, the candidates had scheduled what was to be their only presidential debate, an event which changed the course of the election, and in a larger sense defined the terms of the "credit-fueled

³⁷ Clyde H. Farnsworth, "Consumer Debt Down For May," *NYT*, 10 July 1980, quoted in Schreft, "Credit Controls: 1980," 43-46. In fact, Carter has declined to address credit controls, or his late-term economic policy more broadly, to any substantive degree in any of his presidential memoirs. Instead, Carter places the blame for the 1980 recession firmly on Volcker and the Fed, an artful piece of revisionism that expunges his administration's role in transforming Volcker's managed recession into an all out freefall, partially contributing to his loss to Reagan. Indeed, in his newly released book, *White House Diaries*, Carter chooses to include only the following for March 14th, 1980, the day he instituted controls: "Rosalynn's hotel in Kansas had to be abandoned because of fire, and she left in her bathrobe. She was not injured, but her room filled with smoke." Jimmy Carter, *White house Diaries* (New York: Farrar, Straus and Giroux, 2010), 347-348, 410.

³⁸ Ronald Reagan, "Address Accepting the Presidential Nomination at the Republican National Convention in Detroit," *American Presidency Project*, 17 July 1980; Dick Wirthlin, with Wynton C. Hall, *The Greatest Communicator: What Ronald Reagan Taught Me About Politics, Leadership, and Life* (Hoboken, NJ: John Wiley & Sons, 2004), 35-36; David J. Woodard, *The America that Reagan Built* (Westport, Conn: Praeger, 2006), 27. John Anderson, a moderate Republican from Illinois ran as an independent, but was never considered to be a serious contender by either Reagan or Carter.

consumer binge” which would mark America’s next three decades. The debate showcased prominently the two men’s contrasting visions for America. When asked about inflation, Carter responded that, “We have demanded that the American people sacrifice, and they've done very well,” expounding on successful efforts of conservation and responsible spending. Reagan countered, charging that Carter “has blamed the people for inflation...he has then accused the people of living too well and that we must share in scarcity, we must sacrifice and get used to doing with less.” Reagan then repeated the line from his nomination speech, “We don't have inflation because the people are living too well,” and claimed instead, “We have inflation because the Government is living too well.” This language was strong enough to make the point to most Americans, but Reagan drove the message home most forcefully in his closing statement, asking “Are you better off than you were four years ago? Is it easier for you to go buy things in the stores than it was four years ago?”; questions that emphasized a new vision of society’s goals and signaled the death knell of Carter’s presidency.³⁹

With this rhetoric, Reagan nailed Carter to a cross of plastic. The sharp economic decline that followed Carter’s implementation of the Credit Control Act placed his presidency in an untenable position. Though Volcker’s policies were cooling the economy before the CCA went into effect, and likely would have continued to do so had credit controls not been employed, publicly the White House, not the Federal Reserve, plunged the economy into freefall with its March 14th action. Though voters may not have entered the voting booth with the Credit Control Act as the first thing on their minds, the CCA’s effect on unemployment and the broader economy made it a central factor in voters’ dissatisfaction with Carter’s economic performance.

³⁹ Martin Schram, “Carter Goes into Debate with Lead in New Poll,” 28 October 1980, *WP*, A1; Carter, “Presidential Debate in Cleveland,” 28 October 1980, *American Presidency Project*; Reagan, “Presidential Debate in Cleveland,” *American Presidency Project*, 28 October 1980; Burton I. Kaufman and Scott Kaufman, *The Presidency of James Earl Carter* (Lawrence: The University Press of Kansas, 2006), 2nd. Ed. Revised, 205.

And while the Iranian Hostage Crisis, the Panama Canal Treaty, and the rise of cultural conservatism all influenced the outcome of the election, a New York Times/CBS News poll of more than 10,000 voters found that “the biggest issue in their minds was the nation’s economy,” and indeed, in presidential elections, the economy is consistently the most important factor affecting voter response (see Table 1). By confronting the nation’s credit addiction, Carter played into Reagan’s hand: for millions of credit-wielding consumers who responded in the negative to Reagan’s question, “Is it easier for you to go buy things in the stores than it was four years ago?” the cause may not have sprung immediately to mind, but the answer certainly did. Reagan’s rhetoric made the experience of credit concrete, and he went on to win a landslide victory, claiming 489 electoral votes to Carter’s 49, a result that signaled a sea change in national politics and federal economic policy making.⁴⁰

Reagan’s administration showed little of the sensitivity to complexity or general concern for all segments of the population that challenged Carter’s economic team, and the new president heartily embraced neoliberalism as a panacea for the nation’s economic and psychic woes. In doing so, Reagan roundly rejected the notion of limits, and offered citizens a vision of American society that promised to satisfy all of their desires. “Morning in America,” though, came with a heavy price, one most often paid through increased reliance on consumer credit. As a credit card industry newsletter rejoiced in April of 1981, “Consumers have rebounded from the

⁴⁰ Reagan, “Presidential Debate in Cleveland,” *American Presidency Project*, 28 October 1980; Hedrick Smith, “President Concedes: Republican Gains Victory in All Areas and Vows to Act on Economy,” *NYT*, 5 November 1980, A1, A18. There is an extensive political science literature on the phenomenon of economic voting in presidential elections; for a comprehensive overview, see: Richard Nadeau and Michael S. Lewis-Beck, “National Economic Voting in U.S. Presidential Elections,” *The Journal of Politics* Vol. 63, No.1 (Feb., 2001), 159-181.

government's curb on credit spending imposed one year ago this month and now they're using credit cards at a faster clip than ever."⁴¹

Fittingly, while the Credit Control Act sprang to life under Carter, it would also perish under him. As part of an omnibus package that included a continuation of the Council of Wage and Price Stability (CWPS), the principal deregulatory vehicle of the Carter administration, Congress voted to sunset the Credit Control Act, choosing June 30, 1982, as the date for its final expiration. Contemplating the repeal legislation, director of domestic policy Stuart Eizenstat implored Carter to "veto this bill," arguing that "in the long run the country will be better served if the President retains substantial authority to control inflation." Further, "If we wanted to be cynical," Eizenstat continued wryly, "You might sign the bill precisely because it would weaken Governor Reagan's already-limited ability to address our economic problems," a pointed jab at Reagan's perceived economic illiteracy. Although he might have wanted to be cynical, Carter reluctantly signed the bill into law on December 8, 1980.⁴²

Yet, while the Credit Control Act may have died, it was not wholly buried, and in the succeeding years leading congressional Democrats would attempt to reanimate the act as an alternative to wholesale neoliberalization emanating from the White House and the Federal Reserve. Despite Reagan's unbounded optimism and commitment to making Americans "better off," the first two years of his presidency witnessed the worst economic conditions since the Great Depression, brought low in large part by Volcker's unrelenting drive to wring inflation out of the economy with a firm commitment to an aggressively tight monetary policy. Though

⁴¹ "New Credit-Card Spending Boom Ahead," *The Nilson Report*, Issue 257, April 1981, 1-2.

⁴² Memo, Stu Eizenstat and Josh Gotbach to President Carter, "[Staff] Legislative Files: Index" folder, Box 170, Staff Office – CEA (Council of Economic Advisors), Jimmy Carter Library; Jimmy Carter, "Council on Wage and Price Stability Statement on Signing S. 2352 Into Law," *American Presidency Project*, 9 December 1980.

Volcker's effort was effective – the consumer price index rose only 3.8 percent in 1982 – the human cost in terms of joblessness was intense, and by June of that year unemployment stood at 9.6 percent. Further, extremely high interest rates and a relative dearth of available funds severely restricted purchasing power, a pain felt by businesses and consumers alike. In confronting these problems, President Reagan remained steadfast to his economic agenda. On June 30th, 1982, the day the CCA sunset went into effect, the president celebrated the passage of his tax cut package, noting at a White House news conference, “if we stick to our plan, if we keep the Congress from going back to its runaway spending, the recovery will take hold, strengthen, and endure.” Many on the other side of the aisle were not so sure.⁴³

With the midterm elections approaching, Frank Annunzio (D-IL) and other Democrats seized on the revival of the CCA as an alternative to the Fed's painful monetarist policies and Reagan's assaults on social spending. As a member of the House Committee on Banking, Finance, and Urban Affairs, Annunzio was in a special position to investigate the people's pain, and in the closing months of 1981 his committee conducted local hearings to discern the impact of monetary policy on citizens in cities ranging from Atlanta, GA, to Seattle, WA, and through these communities the rest of the nation. Though problems abounded, the most consistent complaint was excessive interest rates, which were negatively affecting sectors from housing to car sales. Speaking for his industry, Minnesota car dealer Doug Mathers told the committee, “unless interest rates decline markedly and quickly, the days of the small town auto dealer is

⁴³ Robert Collins, *More: The Politics of Economic Growth in Postwar America* (New York, Oxford University Press, 2000), 198-199; Department of Labor, Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey,” <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet>; Ronald Reagan, “The President's News Conference,” *American Presidency Project*, 30 June 1982.

going to disappear [*sic*].” Mather’s concern was repeated by literally hundreds of testifiers, and Annunzio grabbed their collective cause with both hands.⁴⁴

To meet these needs, Annunzio proposed a new Credit Control Act, one with less executive authority and greater congressional oversight. “The members of this subcommittee,” Annunzio claimed, “are indeed fortunate that they will have an opportunity during an election year to vote for or against high interest rates,” adding, “It will give Members an interest rate record to take to the voters in November.” For these CCA revivalists, the act embodied a bundle of disparate hopes that could help Democrats reverse the onerous effects of Reagan’s economic agenda, while bringing the country out of the recession. In attempting to resurrect the CCA from the grave, Democrats reanimated the act with a new set of ideological meanings meant to confront the harsh realities of Reagan’s political economy. While this revival took place primarily in committee hearings and on the House floor, the debate, as demonstrated by Annunzio’s community hearings, reflected wider currents of discontent.⁴⁵

The new CCA was intended as a more focused substitute to the monetarist experiment underway at the Volcker Fed, where tight money policies acted to control credit by using scarcity and price to slow the growth of the money supply. The problem with the monetarist approach, many Democrats argued, was that it favored entities, notably corporations and the state itself, whose relative market power and willingness to accept expensive money allowed these entities to gobble up the available credit and squeeze the average consumer out of the market. This sentiment, when placed in the context of the merger binge of the early 1980s that saw some of the country’s largest corporations fight out very public takeover battles, conspicuously financed

⁴⁴ Congress, House, Committee on Banking, Finance, and Urban Affairs, *Grassroots Hearings on the Economy*, 97th Cong., 1st Sess., Parts 1-3, 19 October, 6-7 and 9 November, 4 and 7 December 1981; Doug Mathers, in *Grassroots Hearings on the Economy*, 125.

⁴⁵ Rep. Frank Annunzio, Congress, House, Subcommittee on Consumer Affairs and Coinage of the Committee on Banking, Finance, and Urban Affairs, *To Extend the Credit Control Act*, 97th Cong., 2nd Sess., 14 July 1982, 2.

by billions of dollars in bank credit, led to calls for the reining in of corporate borrowing as a way to ensure small borrowers could compete fairly for funds. To some prominent Democrats it seemed unconscionable that “the average American could not borrow \$6,000 to shop for a new car...but Mobil could borrow \$6 billion to shop for Marathon and Conoco.” This language was not new; in arguing in favor of the Credit Control Act’s passage in 1969, William Proxmire asked, “Why should we be financing conglomerate mergers and starving the home building industry? Why should we be feeding an unsustainable corporate investment boom and squeezing the small business man?”⁴⁶

To meet these demands, the revived Credit Control Act would give the president a new authorization, specifically to “prescribe limitations with respect to credit for nonproductive purposes, including corporate takeovers, and otherwise ensure the availability of credit for productive purposes.” Unfortunately this language obscured more than it revealed, especially given the political challenges of determining what “productive purposes” connote. For some Democrats, productive purposes amounted to a renewed call for counter-organization of small scale credit users who were being pushed out of the market by large corporations; for labor leaders, the act promised to inject needed capital into reviving domestic industry in the face of foreign competition. It emphatically was not, however, a bill to control consumer credit.⁴⁷

Indeed, because Carter was the only president to utilize the CCA, and because his implementation was the freshest approach to credit controls in the public memory, CCA supporters tried to emphasize the successes of the program while distancing the new CCA from its predecessor’s failings. In recasting the past experiences with controls, they envisioned for

⁴⁶ Ibid., 2, 4; Alexander L. Taylor III and Frederick Ungeheuer, “And the Winner Is...” *Time Magazine*, 17 August 1981, <http://www.time.com/time/magazine/article/0,9171,949339,00.html>; Sen. William Proxmire, Congress, Senate, “Provision of Additional Mortgage Credit,” 91st Cong., 1st Sess., *Congressional Record* (12 November 1969), 33930.

⁴⁷ Congress, House, Subcommittee on Consumer Affairs and Coinage of the Committee on Banking, Finance, and Urban Affairs, *To Extend the Credit Control Act*, 97th Cong., 2nd Sess., 14 July 1982, 10.

them a new future that would better meet the needs of Americans than the Reagan administration's economic policies. "Our Nation's one experience with credit controls under the 1969 Act," argued J.C. Turner, chairman of the National Council for Low Interest Rates, "indicates that they can work to bring interest rates down dramatically," but adding, "I think we also learned how not to apply selective credit controls, particularly in squeezing out consumer credit." Henry B. Schechter, a representative for the AFL-CIO similarly recalled, "The modest use of credit control authority led to a rapid reduction of interest rates and cut the life of a developing recession to the shortest on record." Instead of causing or deepening the 1980 recession, as Republicans and other opponents claimed, credit controls had the opposite impact. By this logic, then, reinstituting controls could have the same effect, stemming the current recession while bringing interest rates down to a sustainable level.⁴⁸

Though Democrats were serious in their efforts, they also knew that the revived Credit Control Act would never get past a Reagan veto. Consequently, hearings discussing the bill often devolved into frustrated rants. "Throw the high interest rate gods another social program and we will have lower interest rates, we are told month after month by the administration's assortment of economic experts," chided Fernand St. Germain (D-RI) in one hearing. Congressman Henry Gonzalez (D-TX) went further:

The administration is convinced that credit controls or any other controls are no substitute for credible sound fiscal and monetary policies. Gentlemen, those words are like love on the lips of a Harlot. The economic monetary and fiscal policies that pass for the administration's economic recovery plan are so revolting and so demonstrably false and unworkable that it is astounding and very difficult to restrain anger. All you fellows have done is to legalize usurious extortion on interest rates.⁴⁹

⁴⁸, J.C. Turner, *To Extend the Credit Control Act*, 86; Henry B. Schechter, *To Extend the Credit Control Act*, 110.

⁴⁹ Rep. Fernand St. Germain, *To Extend the Credit Control Act*, 6; Rep. Henry Gonzalez, *To Extend the Credit Control Act*, 236.

The White House, though, was not the only target of Democrats' wrath, and Volcker's Fed received equally vociferous tongue-lashings. On the floor of Congress, Fernand St. Germain inveighed, "we need some assurances that we will never again allow people and businesses to be destroyed by the unconscionably high interest rates and the scorched earth monetary policies of 1981 and 1982." Indeed, the failings of the previous credit control efforts could only be the fault of the soulless Federal Reserve that was then in charge of implementing the act and was now choking the life out of the economy. "In short," Annunzio declared, "if the Fed had deliberately and completely tried to sabotage the credit controls, I don't think they could have done a more effective job than the regulations they issued." Still, despite the revivalist's intentions, the entire effort to reanimate the CCA contained a certain amount of inherent irrationality, ably deduced by Representative Ron Paul (R-TX). "If the Federal Reserve's performance is less than satisfactory in your opinion," Paul asked his congressional colleagues, "why should Congress give the same Federal Reserve the power to allocate and administer credit in this country?" Needless to say, all efforts to revive the Credit Control Act died on the committee table.⁵⁰

The Credit Control Act's existence, then, was brief, but the new price paradigm the act enabled was long-lasting, owing its longevity to the geographic transformation of consumer credit initiated by Walter Wriston's Citibank. Before Citi demonstrated the full implications of the *Marquette Decision*, banks could be held accountable by their card-carrying constituents through state regulation of interest rates and other credit costs (so too could presidents, as Carter learned). Yet, legally "locating" a bank credit-card program based on the bank's physical place

⁵⁰ Rep. Fernand St. Germain, Congress, House, "Credit Controls - A Chance to Do Something More than Talk About High Interest Rates," 97th Cong., 2nd Sess., *Congressional Record* (March 1, 1982), 3246; Rep. Frank Annunzio, *To Extend the Credit Control Act*, 191; Rep. Ron Paul, *To Extend the Credit Control Act*, 171.

on the land while allowing banks to relocate at will, destabilized the political geography of consumer credit. Now a New York consumer, shopping at a New York retailer, using a credit card from a nominally New York bank, was subject to the lending laws not of the state of New York, but to those of South Dakota. As a result, if consumers felt rates were unfairly usurious or annual fees too high, they were stuck, in New York, with no means for local recourse. Being able to “locate” in South Dakota, or any other non-usury state, Citibank orchestrated a deft regulatory arbitrage, pursuing profit everywhere while being accountable nowhere.

Thus, as many more banks moved or threatened to move, state law became increasingly ineffective at controlling consumer interest rates on the local level. More often, the banking industry convinced states to raise their usury ceilings to stave off threatened moves. New York legislators, reading the writing on the wall (and comfortably ensconced after the November elections) eliminated the state’s usury law in December of 1980, an act, that while too late to keep Citibank’s card operation in place, allowed the bank to raise interest rates for its last few months in the state. Delaware did one better, mimicking South Dakota’s legislation that invited in out-of-state banks, while offering both usury relief and tax breaks. Moreover, by 1983, forty-four states had either loosened or lifted their usury laws, allowing banks and other lenders to set rates and assess annual fees as they saw fit.⁵¹

Yet, while Citi used *Marquette* to become profitable everywhere while accountable nowhere, the bank still “located” its credit operation *somewhere*, and that somewhere was Sioux Falls, South Dakota. For the Mount Rushmore State, the decisions of other states to lift their usury ceilings blunted the local impact of *Marquette* but did not stop South Dakota from

⁵¹ Jon Walker, “Citicorp Is Banking on S.D.,” *SFAL*, 14 June 1981, A2; Eugene Carlson, “Delaware Gabs an Early Lead In Luring Out-of-State Banks,” *WSJ*, 15 December 1981, 31; “Why Is Plastic so Costly,” *Time Magazine*, 4 April 1983, <http://www.time.com/time/magazine/article/0,9171,923467,00.html>.

becoming an important geographic center of consumer credit. Through the 1980s, many large card-issuing banks eyed South Dakota as a potential domicile, including one of Fred Fisher's antagonists, the First National Bank of Chicago. Though not all of these banks came, the state became a recognized center of a de-centered industry (See Figure 2). As former South Dakota Governor William Janklow recalls, "At one time, in my last couple years in office, 16 percent of all the people in the state were employed in the financial services industry."⁵²

Still, while *Marquette* brought jobs to many South Dakotans, these jobs were not always ideal; in a familiar tune, most often sung in a southern accent, the financial firms that relocated to South Dakota for the low wages kept them that way. Although, as articles in the *Sioux Falls Argus Leader* attested, concerned citizens would "Question...Citibank Pay Scales in South Dakota," and complain years after the move that "Citibank's Pay Policy Exploits Its Workers," Citibank's practice of hiring underemployed agricultural labor and non-unionized "housewives" ensured that the state would continue to languish at the bottom of national per capita income. As late as 1993, a study conducted by DRI-McGraw Hill and published in the *Sioux Falls Argus Leader* showed that South Dakotans employed in the credit card industry earned less a year than their counterparts in every other state save Tennessee, and more than \$19,000 a year less than those working in the state of New York.⁵³

⁵² Jon Walker, "3 Additional Banks Eye S.D. Move," *SFAL*, 6 May 1980, A1; Jana Miner, "ChemBank Checks Out City Today," *SFAL*, 24 April 1980, A1; "First Bank System to Move Credit Card Division to S.F.," *SFAL*, 31 May 1980, A1; "New York Banks Eye Rapid City," *SFAL*, 16 November 1980, C5; Janklow, *Frontline* interview.

⁵³ Andrew Stewart, "Questions Citibank Pay Scales in S.D.," *SFAL*, 23 June 1980, C2; Lawrence C. Schroeder, "Citibank Shouldn't Brag About Its \$11,000 Jobs," *SFAL*, 22 July 1984, C2; Dan Jolivet, "Citibank's Pay Policy Exploits Its Workers," *SFAL*, 11 November 1987, A10; Jon Walker, "City Services Could Accommodate Citibank," *SFAL*, 11 March 1980, C1; "S.D. Paychecks Still the Smallest," *SFAL*, 21 August 1985, A1; Anne Saker, "South Dakota is Friendly to Credit Card Industry," *SFAL*, 5 March 1993, B4; Jim Hass, "Credit Industry is Cheap, not Friendly," *SFAL*, 12 March 1993, A11. For Southern industrialization, see: James C. Cobb, *Selling the South: The Southern Crusade for Industrial Development, 1936-1980* (Baton Rouge: Louisiana State University Press, 1982). The low cost of living in South Dakota vis-à-vis New York is clearly a key factor in this wage differential, as is the availability of a call-center reserve army of underemployed agricultural labor in the state, but the low wage statistics were embedded in an article praising the local largess of the credit-card industry, an odd juxtaposition of anti-labor facts and pro-business rhetoric.

While troubling, these numbers do not tell the full story. The transformations in the agricultural economy that pushed farm families off the land and into Peterbilt cabs and Walmart stores in other regions of the country displaced a sizable number of South Dakotans as well. This labor pool, which had little experience or desire to unionize, was an ideal source for financial services firms, but it was also a population in need of work and with few available options in the state. The jobs Citi and other banks brought offered South Dakota farm families a way to maintain their lifestyle in the face of economic pressure which might otherwise have pushed them off the land. This, in turn, allowed leading South Dakotans to sell the Citi relocation as beneficial to the whole community. The jobs brought by Citibank would, Sioux Falls banker Curtis Kuehn told the Minneapolis Fed, “help us retain our young people and provide an alternative employment to our agricultural worker.”⁵⁴

Still, by maintaining low local wages, Citi ensured that although money flooded into South Dakota as millions of credit card customers mailed in their monthly payments, it ebbed out just as quickly, washing instead into Citibank’s coffers. South Dakota did, however, have one means of siphoning away revenue from Citibank: In 1957, the state had instituted a bank franchise tax, applicable to all banks operating in South Dakota. Before Citibank’s proposed move, the tax mandated that each bank pay six percent of its gross revenues to the state, 73.33 percent of which would be remitted to the county in which the bank operated and 26.66 percent would go to the state government. This system was designed to keep local banks’ profits within the communities they served, further enhancing the ties between banks their local economic constituents. However, as part of the legislation that invited Citi into the state, the bank

⁵⁴ Letter, Curtis W. Kuehn to Kenneth W. Leaf, “Citicorp application for a National Bank Charter,” 19 March 1980, Citibank Correspondence Binder, Sioux Falls Chamber of Commerce, Sioux Falls, South Dakota. Agricultural underemployment and dislocation figure prominently in Shane Hamilton, *Trucking Country: The Road to America’s Wal-Mart Economy* (Princeton: Princeton university Press, 2008) and Bethany Moreton, *To Serve God and Wal-Mart: The Making of Christian Free Enterprise* (Harvard University Press, 2009).

franchise tax was amended so that banks entering the state for the express purpose of engaging in national credit card business paid 95% of the tax to the state, and only 5% to the county in which they operated. The implied relationship, then, between these banks, the state, and their local communities was clear: credit-card banks owed their loyalty to the State of South Dakota, not the communities where they nominally resided. Though both methods of taxation fell under the bank franchise tax, internal state documents made a clear distinction between the local “bank franchise tax,” and the state “bank card tax,” marking the state’s special interest in the success and profitability of its new credit issuing residents.⁵⁵

When their leaders married the state’s economy to the banking industry, South Dakotans found their local sovereignty in jeopardy, especially as their state became captive to the economic interests of a bank with many times its resources. This threat was clear enough to *Sioux Falls Argus Leader* columnist Tim Schreiner, who warned in December 1980 that “All of the down-home testimony South Dakotans can muster won’t stand a chance against the lobbying power of an operation like Citibank.” Schreiner’s prediction proved prescient. Through the early 1980s, Citibank and Governor William Janklow continued their drive to make South Dakota a deregulated banking paradise. In 1983, at Citi’s insistence, the state passed legislation allowing commercial banks to acquire insurance companies, a move that earned the state the dubious designation of “South Dakota, Inc.” Months after the bill was signed, Citibank moved to acquire the American State Bank of Rapid City, through which it planned to initiate a national insurance operation regulated solely under South Dakota law. Though Janklow defended the state’s actions, noting, “We have no intentions of becoming the Liberian or Panamanian registry

⁵⁵ *South Dakota Codified Laws* (Charlottesville, VA: MICHIE, 1996), 1996 Revision, V.4A, pp. 474-475; V. 15A, 26-27; Document, “Tax or User Fee: Bank Franchise Tax,” “BOF & M, 1990-1994” folder, Box 5727, Exec. Mgmt/Gubernatorial Div/Gov. George Mickelson/General Files/Bureau of Finance & Mgmt, 1987-1993, South Dakota State Historical Society, Pierre, South Dakota.

for banks,” his actions evidence a clear desire to make his state a haven for swashbuckling financial firms. The Federal Reserve, however, determined that this move went too far, belatedly chastising Janklow and South Dakota “for placing job expansion concerns above considerations for the soundness of the national banking system.” More pointedly, Paul Volcker, who sat quietly by as Citibank found usury freedom in South Dakota, objected that Citi’s move into insurance constituted “smart-ass” banking at its worst. South Dakota, though, would not be so easily slowed in its race to the regulatory bottom, especially not by mere admonishments.⁵⁶

Still, in the mid-1980s there emerged some in-state dissension about South Dakota’s special relationship with national card-issuing banks, coming, incidentally, from the state’s community bankers. In the wake of Citi’s move, a number of out-of-state banks and other entities, intending to avail themselves of the state’s relaxed regulatory climate, began scooping up small banks to use as credit-card processing centers. The Independent Community Bankers of South Dakota (ICBSD), an organization initially founded to consolidate the buying power of local banks, mounted a spirited campaign against such practices beginning in 1985 with an attempt to block Sears’s acquisition of the Hurley State Bank in Pierre. As the group’s president Houston Haugo declared, “We’re against a national organization coming in here and throwing its weight around,” adding further his concern that such an action would hurt banking services for local people. Though the ultimate effect of the ICBSD’s campaign is unclear, Haugo soon changed his tune, selling his Valley National Bank to Marquette National Bank of Minneapolis in 1989.⁵⁷

⁵⁶ Tim Schreiner, “Citibank May Bring Bitter Aftereffects,” *SFAL*, 29 December 1980, C2; “Janklow Defends Legislation that Attracts Banks to State,” *SFAL*, 20 September 1983, C1; “Fed Dims the Luster of South Dakota Inc.,” *SFAL*, 4 August 1985, A10; Zweig, *Wriston*, 810-811.

⁵⁷ Tom Bengtson, “The South Dakota Secret: The Voice of the ICBSD is Growing,” *Commercial West*, date unknown, 2, “Independent Banking Org.” Folder, Sioux Falls Chamber of Commerce, Sioux Falls, South Dakota; Houston Haugo, quoted in Tom Bengtson, “The South Dakota Secret, 2, “Independent Banking Org.” Folder, Sioux Falls

Even South Dakota's friendly regulatory environment and low wages were not a guarantee that Citibank would always stay in the state. In 1991, some state legislators began to worry that other card-friendly states, notably Nevada and Delaware, might offer Citibank a more favorable tax climate than South Dakota. "Let me say early on that Citibank has made no threats to leave," said House Republican Leader Jerry Lammers. "By a stroke of the pen, Citibank could, if it wished to do so." To stave off this paper tiger, the legislature instituted a new sliding tax scale, where all bank income up to \$500 million would be taxed at the current rate of six percent. From there the rate would decline one percent on each subsequent \$25 million, with all income exceeding \$600 million taxed at one percent. Citibank was the only South Dakota bank even approaching these revenue figures, and the tax break came in a year when the state faced a revenue crisis that pushed the Governor to raise taxes elsewhere. Concerned citizen Dale Gullickson understandably asked "What has happened to our general sense of fairness that taxes should be borne most by those that can most afford to pay them?"⁵⁸

Three years later, in the wake of revelations that Citi had likely failed to pay the state millions in unclaimed funds, the state treasurer demoted then fired an aide who urged the state to audit Citibank. The treasurer, Republican Homer Harding, lost his office as a result of the ensuing scandal, but the message was clear. Harding's replacement, Democrat Dick Butler, pressed for a full audit of the bank, and waged an extensive campaign to make sure that Citi was paying the taxes it owed. The feud between the bank and the state reached the point that a local marketing firm took out a full page add in the *Sioux Falls Argus Leader* assuring "the employees, management and shareholders of Citibank South Dakota," that despite the recent

Chamber of Commerce, Sioux Falls, South Dakota; Gary D. Olson and Erik L. Olson, *Sioux Falls, South Dakota: A Pictorial History* (Norfolk, VA: The Donning Company, 2003), 191.

⁵⁸ Terry Woster, "Bill Puts Citibank on Sliding Tax Scale," *SFAL*, 1 February 1991, C1; Terry Woster, "Governor Defends Tax-Hike Plans," *SFAL*, 17 January 1991, C1; Dale Gullickson, "Citibank Tax Break Doesn't Make Sense," *SFAL*, 7 February 1991, A7.

unpleasantness “Things aren’t what they seem.” Defending his ad, and expressing again the state’s greatest fear, Craig Lawrence said, “If you take a corporation like Citicorp and bash them over and over and over and over, they’re going to leave South Dakota.”⁵⁹

The bank has not left; and while Citibank’s relationship with South Dakota has been a tumultuous one, the state has certainly reaped tremendous benefit. In 2006, the bank celebrated its 25th year in the state, and to commemorate the occasion produced a corporate video montage entitled, *A State of Dreams. A World of Difference*. In the video, Citi touts itself as the “major economic engine for Sioux Falls and South Dakota,” providing over 3,200 jobs to the state. Additionally, the bank emphasizes its commitment to the community, offering its \$11 million contribution to the United Way and \$19 million in grants to non-profits as evidence, along with the 35,000 annual volunteer hours provided by Citi employees every year. As a result of the bank’s symbiotic partnership with the state, dating to 1981, the video proclaimed that “Today, Citibank is the world leader in the credit-card industry, with more than 140 million accounts.”⁶⁰

Citi’s corporate self-congratulation would not be complete, however, without a 25th anniversary party, which was held on April 26, 2006 at the Washington Pavilion in Sioux Falls. The event featured the state’s political elite, including the governor and congressional delegation, along with a host of Citibank South Dakota executives, all lauding the bank and the state’s success, and thanking the – mostly female – workforce for their contributions to this effort. The star of the show, however, was Citi CEO Charles Prince.

Prince began his talk with a brief nod to history, recalling the great leaders who, in Citibank’s hour of darkest need, found a solution to the bank’s credit-card problem. “A

⁵⁹ Carson Walker, “Treasurer Fires Aide Who Urged Citibank Audit: Staff Member was Terminated for Speaking out, Lawyer Says,” *SFAL*, 7 June 1994, A1; Carson Walker, “Citibank Pays State \$1.1M,” *SFAL*, 23 June 1995, A1; Advertisement, Lawrence & Schiller, “Things Aren’t What They Seem,” *SFAL*, 9 November 1995, A9; Brenda Wade Schmidt, “Ad Agency Defends Citibank in Feud with Treasurer,” *SFAL*, 12 November 1995, A1.

⁶⁰ Citigroup, Citibank South Dakota N.A., *A State of Dreams. A World of Difference*, 2006.

solution,” Prince argued, “that was good for South Dakota – and that’s terrific! – but frankly can be seen to have saved Citibank. Think of that,” Prince continued in reverent awe, “saved Citibank.” Prince though, was not only interested in the history of the enterprise, but urged his audience to look toward the future: “now the future is about growing the organization. That means growing our revenues,” pumping his fist to make each point, “growing our profits, growing the size of the organization...growing jobs; it means growth, and that’s what we’re focused on, and that’s what I expect from you.”⁶¹

If Citibank South Dakota was going to achieve this growth, it would come from the business that had historically been the state’s mainstay. “Cards,” Prince implored, “is the centerpiece of our North American Consumer business. There’s no getting around it.” Gaining momentum the CEO of the world’s largest financial services company emphasized each of his next seven syllables, “We Need Growth From U S Cards – We need growth in what we sell to people. We need growth in numbers of accounts. We need growth.” Crescendo-ing, “We’re going to grow this business. We’re going to grow Citigroup.”⁶² And Prince did; Citi’s net-income from the US Cards division rose an impressive 41 percent in 2006, to \$3.9 billion dollars.⁶³

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Such good fortune would not last, however. In the following year, as the global financial crisis began to unfold, the bank’s card income fell 26 percent; in 2008, with the collapse fully underway, the company lost a staggering \$523 million on its North American credit card accounts. “If banking is not considered a social responsibility, there is no excuse for any bad

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<sup>61</sup> Ibid.

<sup>62</sup> Ibid.

<sup>63</sup> Citigroup, “Citigroup Annual Report 2006,” [http://www.citigroup.com/citi/fin/data/ar06c\\_en.pdf?ieNocache=129](http://www.citigroup.com/citi/fin/data/ar06c_en.pdf?ieNocache=129), Sec. 1, 3.

loans,” Henry M. Dawes had noted in his 1930 defense of geographically restricted unit banking, adding that since “this is not the case, and certain risk must be taken in the interests of progress and in response to the public interest.”<sup>64</sup> When Dawes compiled the regulatory recommendations that would eventually become the McFadden Act of 1927, he had imagined the public interest as the community’s interest, progress and the community’s progress. “It must be remembered,” Dawes wrote, “that the money which is lost to the bank is not lost to the community, that the brick and mortar on which these funds may have been expended are still in the community,” but on the contrary, “if the funds are loaned by absentees to absentees the loss registered on the balance sheet is a loss to the community.” By circumventing geographic regulation, Citibank installed itself as the absentee banker of the nation, and its late-2000s losses became the losses of the community of United States taxpayers. Many of these taxpayers, however, had already sustained considerable losses, whether in the tangible form of stagnating real wages, or intangibly as economic alienation and the loss of local regulatory control.

Also losing was Jimmy Carter. Though his firm stand against America’s debt-economy was in many ways successful – outstanding consumer debt, interest rates, and inflation all fell from March to July 1980 – it ultimately cost him the election and the continued ability to question the nation’s fiscal direction from the White House. That Citibank, whose mass-solicitation effort drove Carter to act, wound up being – until recently – so fortunate in the credit-card field, offers a strong statement about the shifting centers of political and economic power over the course of the neoliberal turn. Further, Citi’s story outlines a newly entrenched geographic logic of capital, needing at the same time ever more integrated national and

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<sup>64</sup> Citigroup, “Citi Annual Report 2008,” [http://www.citigroup.com/citi/fin/data/ar08c\\_en.pdf?ieNocache=129](http://www.citigroup.com/citi/fin/data/ar08c_en.pdf?ieNocache=129), 29; Henry M. Dawes, “In Defense of Unit Banking,” in Virgil Willit, ed., *Selected Articles on Chain, Group and Branch Banking* (New York: The H. W. Wilson Co., 1930), 255.

international markets and ever independent local sovereignties from which to manipulate them. That South Dakotans were both beneficiaries and victims of the ensuing “race to the bottom” demonstrates that their place is not exceptional, merely exploitable.

Table 1: 1980 Presidential Results by Perceived Economic Position

|                                 | Carter | Reagan | Anderson |
|---------------------------------|--------|--------|----------|
| Family Finances                 |        |        |          |
| Better off than a year ago (16) | 53     | 37     | 8        |
| Same (40)                       | 46     | 46     | 7        |
| Worse off than a year ago (34)  | 25     | 64     | 8        |

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Source: 1976 and 1980 election day surveys by the *New York Times*/CBS News Poll and 1976 election day survey by NBC News, in Paul T. David, "The Election of 1980 and Its Consequences," Paul T. David and David H. Everson, ed., *The Presidential Election and Transition 1980-1981* (Carbondale, IL: Southern Illinois University Press, 1983), pg. 165.



Figure 2: A New Credit Geography. Source: "Dakotaized/New Yorkers Ease into Homes on the Range," *SFAL*, 18 December 1981, pg. B1.

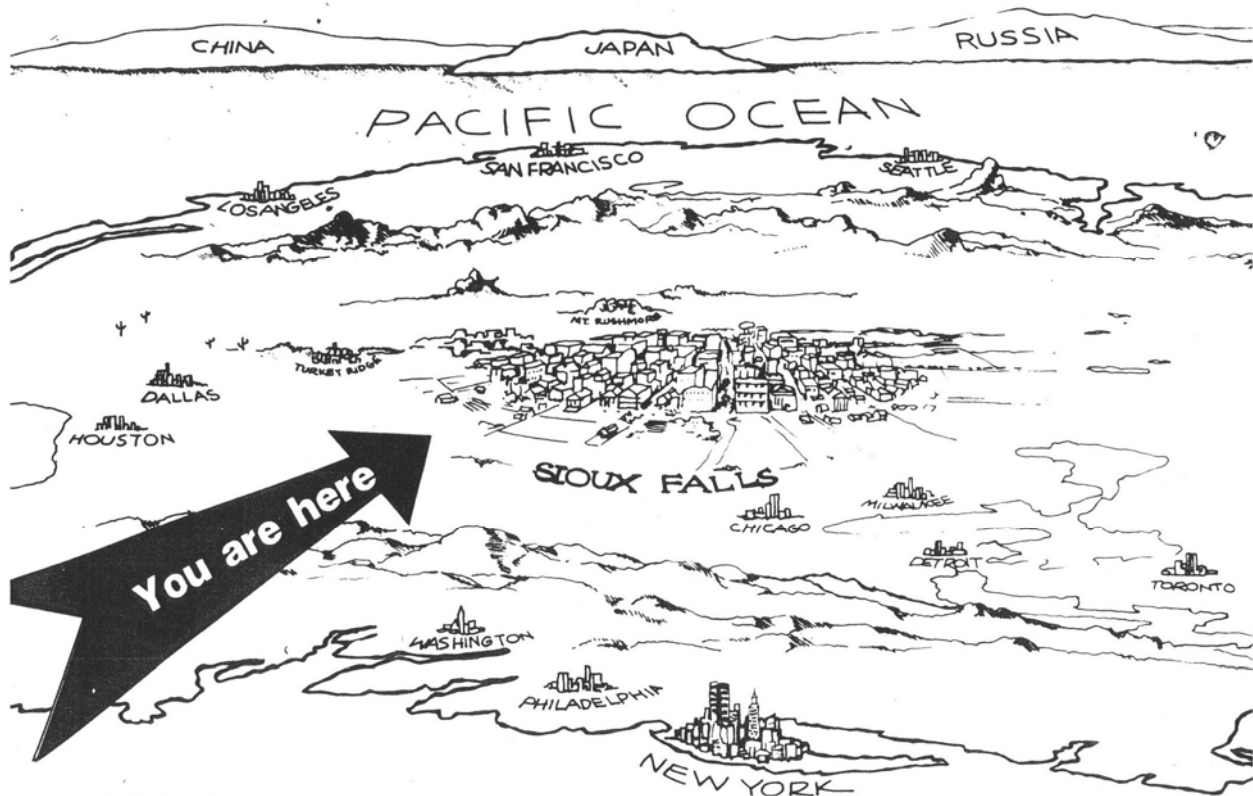
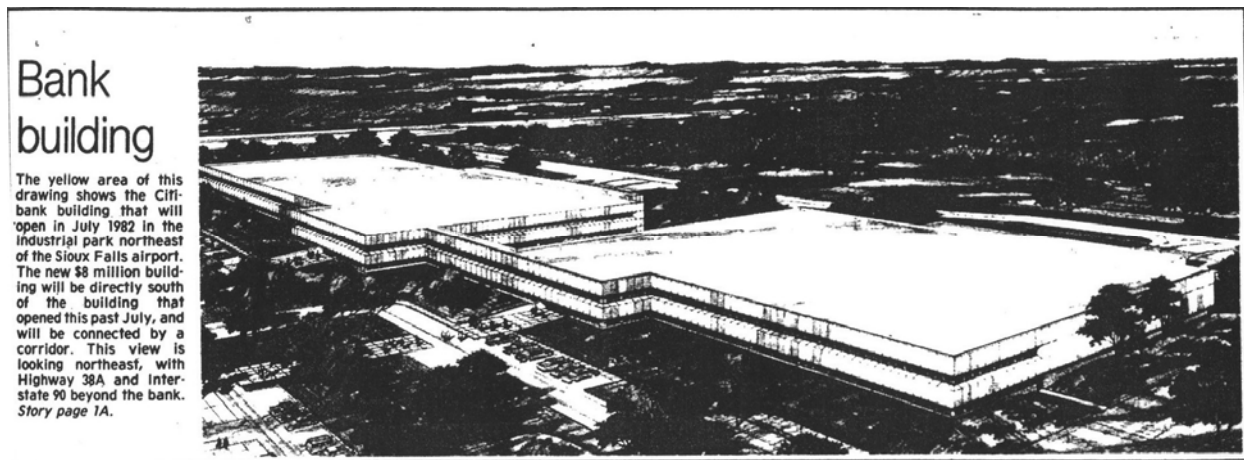


Figure 3: A New National Bank. Source: "Bank Building," *SFAL*, 7 October 1981, pg. C1.



## CHAPTER 5

### CONCLUSION

Viewed retrospectively, Reagan's election seems inevitable: the coalescence of modern cultural conservatism, converging in Sunbelt suburbs and spurred by white racial resentment and Southern evangelical Christianity, virtually guaranteed the rise of a politician with Reagan's credentials in the post-New Deal era. Advancing toward the 1980 presidential contest, the amassed retinue of the new Republican right had gathered considerable electoral momentum, prompting one scholar to write that "President Carter was up against not just a candidate but an entire movement." But while undeniable upsurges of grassroots conservatism and cultural politicking contributed to Reagan's attainment of the Republican nomination, they did not on their own defeat Carter in the general election. In November 1980, Reagan was more accurately lifted, not by a movement of culture, but one of capital.<sup>1</sup>

Carter's implementation of the Credit Control Act undermined the economy beginning in March 1980, and with it the President's ability to win at the polls. This action, prompted by Citibank's drastic realignment of the nation's consumer credit geography, restricted citizens' access to consumption and by November many knew clearly that it was harder for them to go shopping – to enjoy the promises of postwar American life – and they were ready for a change. That this change, in retrospect, now marks the culmination of a conservative revolution was less important to those who went to the polls, and those who did not, than were the basic realities of their economic lives.

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<sup>1</sup> Julian Zelizer, *Jimmy Carter* (New York: Times Books, 2010), 111.

As political scientists have conclusively shown and historians are more fully grasping, pocketbook politics most forcefully determine national electoral outcomes and in a broader sense the everyday political engagements of U.S. citizens in the twentieth century. While this has prompted historical interest in the substance of workers' pay envelopes and the equity of retail prices, scholars must consider more closely the precise contents of citizens' wallets, and the interplay between state structures, business practices, and national politics that have accompanied changes in those contents over time. It is not coincidental, for instance, that as consumers have substituted cards for cash, and in doing so adopted the currency of the nation's debt-driven economy, conservative political ideology and neoliberal economic doctrine have attained the greatest purchase in America's political and economic dialogue. These developments are inherently linked; they are linked through bankers, like Walter Wriston, and other businessmen who promoted a vision of an unregulated, free market economy; they are linked through politicians, like Ronald Reagan and his successors on both the right and the left, who promised the American Dream would come to citizens from an enlightened market not the benighted state; and they are linked through citizens who have been gradually alienated from their sources of credit and whose purchasing power is decreasingly paper manufactured by the government and more often plastic issued by a commercial bank or a major department store.

Indeed, credit cards operate as a particularly hegemonic technology of neoliberalism; while they are easily marketed on claims of convenience, individual responsibility, and, most importantly, freedom, they are also profoundly redistributive, moving wealth up in the form of interest, annual fees, and other credit costs, from the middle and working classes to the shareholders of the nation's banks. While American incomes became increasingly stratified beginning in the late 1970s – the richest fifth having seen their incomes rise sharply while the

remainder have either stagnated or declined – credit and credit cards have allowed citizens continued access to the consumer economy which declining wages might have denied them. In this way, downward pressure on incomes carried diminishing political salience as citizens retained the freedom to consume while trading their collective interest in wages for the individual burden of debt. This shift has been accompanied by the increasing transfer of state responsibility to private enterprise; in recent years Visa has taken to advertising its products not as credit, but as currency, signifying the reality that the state and states have ceded much monetary sovereignty to the issuers of credit cards, and with the sovereignty the very responsibility for public welfare. When the state of Georgia distributes its Supplemental Nutrition Assistance Program to families in need, it does so through Electronic Funds Transfer cards and accounts administered by JP Morgan Chase.<sup>2</sup>

Moreover, as consumers have come to accept this system, or been drawn into it as cards have become necessary signifiers of economic citizenship, these citizens have become increasingly enmeshed in individual – state enforced – debt obligations that in aggregate account for Americans’ nearly – on the cusp of the 2008 financial collapse – one trillion dollars in revolving consumer debt. The escalation of such debt was made possible, as historian Louis Hyman argues, by the influx of capital into consumer credit markets, a development that Hyman largely attributes to the ability of firms to resell debt on the open market. The shifting geographies of consumer credit that this study tracks, however, also opened the door to today’s debt bubble, influencing both consumers’ willingness to borrow and banks’ willingness to lend. Citibank’s act of regulatory arbitrage began a race to the bottom, pitting state legislatures against

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<sup>2</sup> Lizabeth Cohen, *A Consumers’ Republic: The Politics of Mass Consumption in Postwar America* (New York: Vintage Books, 2003), 404.

each other and eliminating usury ceilings as a feature of American political economy. This structural change in particular has held profound consequences since Citi's move in 1980.<sup>3</sup>

Before Citi's move, the combination of fixed usury limits and long term interest rate fluctuations functioned to discourage banks from carrying higher risk debts over long periods of time. While Citibank could profit from extending credit when rates were low, the bank had no financial interest in keeping consumers in perpetual debt, because when rates inevitably rose and usury limits remained fixed, debt assets could become significant liabilities – as Citi discovered in late-1979. But the elimination of usury limits provided banks with a structural incentive to hold increasing amounts of high-risk and high-interest consumer debt, because no matter how high interest rates might rise, these banks – or the third parties to whom they sell these assets – can always raise consumers' rates to maintain profitability.

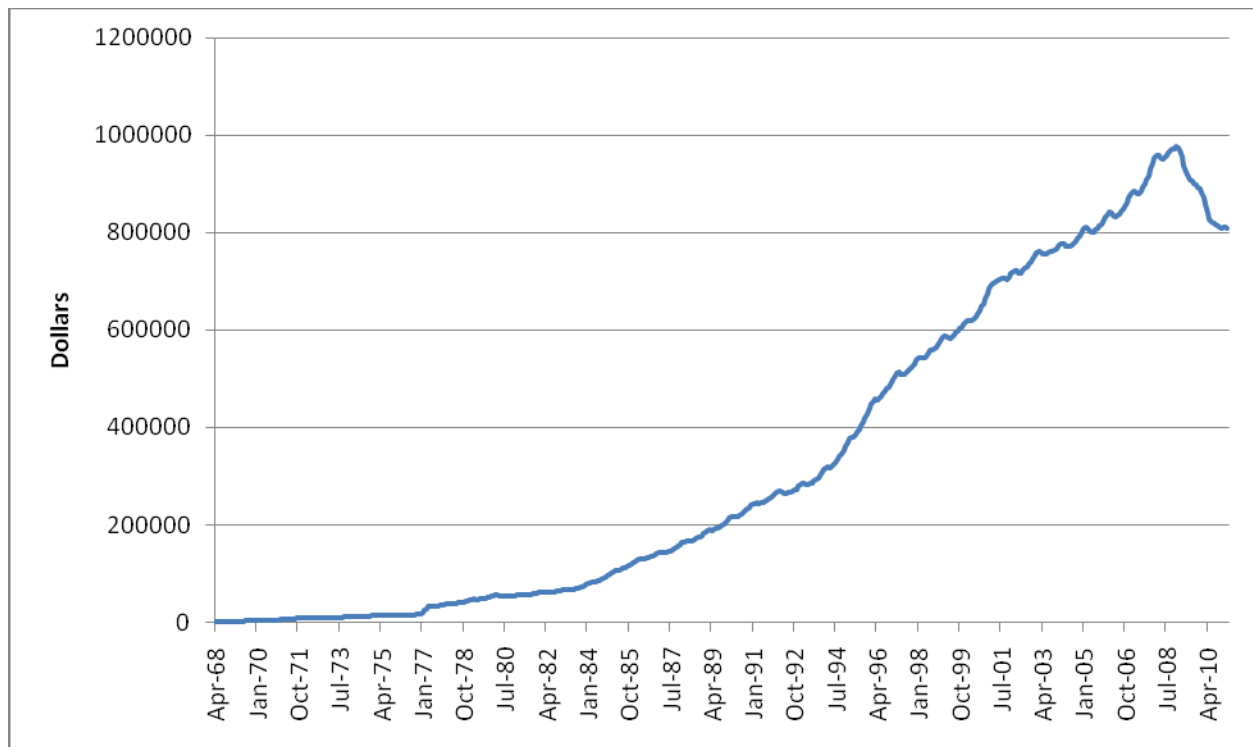
Citibank's relocation made this possible, while also marking the culmination of the geographic transformations of consumer credit begun by banks in the late-1950s. Once credit started coming to consumers through the mail, absent the personal interactions and community relationships previously necessary for credit access, a process of alienation had begun. This was accelerated in the late-1970s, as Citi and other banks began mailing cards nationally, further distancing consumers from the sources of their credit, while placing credit grantors outside the political jurisdiction of their customers. This process, though, did not unfold seamlessly or smoothly for banks, and mass-mailing created both large financial losses and increased regulatory scrutiny. Such state interest, as this study has shown, led both to the passage of the Credit Control Act in 1969 and its implementation by President Carter a decade later. Yet, while consumers and Carter both felt the need to rein in the nation's debt-economy in early 1980, the

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<sup>3</sup> Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton: Princeton University Press, 2011).

need for credit was already too deeply entrenched, pushing the economy into recession and Carter out of office. In his place, presidents from Reagan forward have embraced consumer credit as the backbone of the American economy, while banks like Citi have attained record profits and sweeping power as credit cards have become the central currency of modern consumer capitalism. While the so-called Great Recession has pushed consumers to reconsider their credit habits, and banks to write-off billions in consumer credit losses, it is yet to be seen whether we are witnessing a permanent change or merely another Carter-like blip on the upward trend of consumer debt (Figure 4).

Figure 4: Consumer Revolving Debt Outstanding. Source: Federal Reserve, “G. 19, Consumer Credit, Historical Data,” [http://www.federalreserve.gov/releases/g19/hist/cc\\_hist\\_sa.txt](http://www.federalreserve.gov/releases/g19/hist/cc_hist_sa.txt) ; seasonally-adjusted undeﬂated dollars in millions.





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