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The Great Credit Card Rip-Off

By Tamara Draut, February 16, 2004

As economists and politicians debate the strength of the nation's economic recovery, a dark reality has failed to penetrate the national debate: that much of our economy, including the recent spurt in the gross domestic product (GDP), is being driven by American families going deeper into debt.

Almost two-thirds of our economy is driven by consumer spending, and the fuel that American families are using to meet their everyday needs is high-cost credit cards. At the end of 2002, families owed more than $750 billion in credit card debt--an average of $12,000 per indebted household. Between 1989 and 2001, middle-class families saw their credit card debt increase by 75 percent. The lowest-income families' card debts grew by a whopping 149 percent. Spikes of this level invite the question: Why are so many families going into debt?

The picture of debt in this country mirrors the overall trend toward greater economic inequality. During the big boom of the '90s, upper-income families accumulated massive new wealth through capital gains in the stock market. Meanwhile, most low- and middle-income families had exactly the opposite experience: Pinched by stagnant real wages and rising living costs, they were able to save less and less, and began borrowing to make ends meet. The new decade brought a recession, rising unemployment and state funding cuts--a triple whammy for the already struggling middle-class.

Now average-income families are routinely using credit cards as a kind of private safety net. They are turning to credit when a breadwinner loses a job--which has happened over 3 million times in the last 30 months--or when illness strikes and there are high deductibles, or for the 41 million Americans without health insurance, full medical bills to pay. With little to no savings to fall back on, even something as mundane as getting new brakes for the car can initiate a spiral of high-interest credit card debt. If families were paying down this debt over a short period of time at a reasonable interest rate, plunking down the plastic wouldn't necessarily be a major problem. But that isn't the case.

As families have become more economically vulnerable over the last decade, the credit card companies have responded by bilking customers with escalating rates and fees--even though rates on all other types of mainstream loans have dropped precipitously. Late on a payment by a mere day, or even a minute? The card companies will slap you with a $35 fee and jack your rate up to 29 percent. All the major issuers now consider a payment "late" if it is received after 2 p.m. on the due date, and they're mailing statements closer and closer to that date.

Now imagine if other businesses, such as utilities, acted in the same manner. Customers whose payments were late by one minute would have their electricity rates tripled for a year, at minimum. Of course most families wouldn't be able to afford the higher electricity cost. The result would be pandemonium: millions of households across the country going dark--and staying dark as the bills mounted. Of course elected officials would never let families suffer such abuse. Still, there seems to be a bipartisan agreement to let millions of families be crushed by high-interest credit card debt, draining wealth that families could be investing for the future.

It's the Wild West in the credit card industry, with interest rates more than seven times the prime rate and a fee frenzy that shows no sign of abating. But thanks to deregulation, there's no Wyatt Earp coming to our rescue. This year alone, it's predicted that American families will pay $7 billion in extra fees, and just over $78 billion in interest on their credit cards. The industry will walk away with about $27 billion in pre-tax profits.

Where is the outrage over the fact that billions of dollars are being taken from the wallets of ordinary Americans through practices that once would have been considered usury--and illegal? With more Americans filing for bankruptcy every year than graduating from college, it's time for Congress to address seriously the problem of debt and the high cost of credit in America. In the short term, we need to stop some of the most egregious practices of the industry, quickly providing families with much needed fiscal relief. In the longer term, however, we need to work toward establishing a national usury law that would ensure continued profitably for the industry and a sustainable and fair system of credit for American families.