Contributors

Stuart Vyse: Our love-hate relationship with plastic

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WHAT A DIFFERENCE three years makes. In spring of 2005, credit-card companies were on the offensive, pushing through a tough new bankruptcy bill aimed at preventing "irresponsible borrowers" from getting rid of their debts.

Today, the same companies are playing defense. Credit-card reform legislation has been introduced in the House and Senate, and both Democratic presidential candidates are talking about pushing back restrictions on bankruptcy.

There are at least three reasons for this new attack on the credit-card industry. First, we have a Democratic Congress with the power to call hearings and make some progress (up to the point of presidential signature or overturning his veto) on banking-reform legislation. Second, the subprime-mortgage crisis has given the lending industry in general a bad name. Finally, for several years, starting well before today's economic woes, credit-card companies in particular have been the object of growing consumer outrage.

On the list of hated businesses, this one falls somewhere between used-car dealers and cigarette makers. Our anger toward the credit-card companies arises in large measure because of the many abuses they have engaged in, such as "universal default," in which falling behind on some other obligation can trigger jacked up interest rates on your credit card, even when you have a perfect payment record. But how did we let this industry introduce such pernicious practices in the first place? Why do we let these folks get away with things we would never tolerate in any other business?

The answer lies in our love-hate relationship with plastic. It's like free money. A license to kill. Exchangeable for anything at any time — no trip to the ATM required. Furthermore, the combination of low minimum payments and revolving credit makes it feel painless. Only credit cards can give us anything under the sun today, while putting the cost of consumption off into the murky future. We accept the abuses these companies dish out because we love what they give us in return. We pay what the market will bear.

Perhaps the recent changes in the economic and political winds mean the market will bear a little less. But the industry takes comfort in the knowledge that we can't give up the card. Plastic is ubiquitous and fully integrated into our lives. A true necessity. Today, American consumers face a growing list of economic challenges. Many are struggling to stay afloat in the face of declining wages and inadequate health-care coverage. But through it all, credit cards continue to be one of our most abiding financial challenges. Combined with retail innovations, such as 800-numbers and Internet shopping, they make every waking moment a potential spending opportunity. Credit cards give us the willies. We love what they do for us during the day, but they often keep us up at night.

Credit cards have long been the engine of bankruptcy, and because many people cashed out equity from their homes to cover credit-card debt during the real-estate boom, they are also a hidden aspect of our current mortgage difficulties. Undoubtedly many people now regret squandering their home equity on long-forgotten meals and movie tickets put on their credit cards, but they loved the convenience at the time. Plastic is a very tricky product. We love it, but it sometimes brings out the worst in us. And, although credit-card reform would be a very good thing, it will not resolve our troubled love-hate relationship with the card.

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