Contesting decoupling: the case of the US credit card industry

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Introduction

The end of the Bretton Woods’ gold/dollar standard and system of comprehensive capital controls in 1973 marks the historical starting point for debates concerning the emergence of ‘global’ finance in the study of international political economy (IPE). The initial concern was how these deregulated international financial flows would impact state sovereignty over economic policy and planning. The comprehensive deregulation of financial services in the United States and United Kingdom in 1986, led to a morphing of the ‘state and finance’ debate into a conceptualization of the impact of deregulated financial markets on the ‘real’ economy of production and consumption. Today the bifurcation of the global political economy between productive capital and financial capital is “relatively well rehearsed within the IPE literature” (Watson 1999) (56). The contours of the decoupling paradigm are largely based on interpretations of the growing significance of financial markets to the organization of the international political economy. The general theme of divergence between financial markets and the real economy of trade in goods and services becomes an elaborate claim about the triumph of finance over production. The plethora of financial instruments and mounting volume of speculative financial transactions is considered both separate from the real economy and subverting it.

It is with these dominant themes in mind that we will explore the historical development of the credit card industry pre- and post-deregulation of financial services in the mid-1980s in the United States. Based on this case study, this article asks whether the concept of decoupling can account for the changes in the structure and social impact of global finance, in general, and credit card industry, in particular, since 1986? It is argued that the decoupling paradigm provides a superficial, even misleading, account of the consequences of financial market deregulation on the form and function of global finance and the operation of the credit card industry relative to the real economy. When put under historical scrutiny the concept of decoupling obscures more than it reveals in terms of how the changing structure of financial markets has impacted firm organization and
orientation as well as accounting for the social pervasiveness of the credit card in social life.

Contrary to notions of divergence or separateness that the decoupling puts forward, the changes in the US credit card industry shows a greater integration into the real economy after the 1986 deregulation. The creation of the first mass universal third-party credit card, the Diners Club Card, in 1949, is historically linked to the socio-political conditions of postwar American Fordism. Keynesian inspired banking regulation facilitated the creation and expansion of the credit card industry as well as placing structural limits on potential growth and profitability. The deregulation of international financial flows in the post-1973 fall of Bretton Woods gold-dollar standard marked a political change in the governance of banking. The subsequent deregulation of banking in 1986 proved decisive in securing the dominance of the credit card as the most profitable financial service. What is less clear is whether this expansion and increased profitability can be characterized by a decoupling of finance from the real economy; especially, when the closer integration between banks and non-banks in the post-deregulation era can largely account for the astronomical growth of the credit card market as well as its proliferating social presence.

To speak of a theory of decoupling in IPE would be inaccurate, since it has neither cannon text nor any self-proclaimed ‘decoupling’ theorists. Instead, the conceptual application of decoupling exists as a paradigmatic approach to understanding the consequences of the ‘resurrection’ of global finance in the post-Bretton Woods era. The three main claims of the decoupling paradigm are that: (1) the astronomical daily volume of transaction in global financial markets, proportional to the volume of trade in goods and services, proves its disconnection from the real economy; (2) as a result of these large volumes, the real economy is constantly disciplined by the interests of financial markets; (3) the constant speculation in financial markets is a parasitic force that subverts productive investment. By examining the historical evolution of the US credit card industry in light of these claims, this paper attempts to reveal a fundamental weakness of this paradigm: its inability to address the pervasiveness of social restructuring inherent in the rise of global finance. The credit card industry provides a compelling case study since
it has grown almost exponentially as a consequence of deregulation and it is the most profitable financial service with 2004 profits measures at $24.44 billion 2004 (Simpson 2005).

This paper concludes by considering the alternative concept of financialization to understand the scale and scope of changes in orientation of the economic governance and the particular developments in the credit card industry. The concept of financialization offers a detailed analytical account of firm restructuring in credit card industry that rejects notions that these changes came about as a result of being liberated from the confines of the real economy; instead it sees these changes as being a part of a larger process of social restructuring that influences the nature of institutional change.

**Debating Decoupling**

The resurrection of global finance in the post-Bretton Woods era is one of the central tenets in the study of International Political Economy (IPE). The concept of the ‘decoupling’ of finance from the real economy seems to have provided an important distinction in IPE literature between different historical forms of organization of financial markets. The three central claims made by the decoupling paradigm are, (1) the astronomical daily volume of transaction in global financial markets, proportional to the volume of trade in goods and services, proves its disconnection from the real economy; (2) as a result of these large volumes, the real economy is constantly disciplined by the interests of financial markets; (3) the constant speculation in financial markets is a parasitic force that subverts productive investment. These three tenets form the foundation of the decoupling paradigm which, “is a common feature of different long-standing approaches to political economy that, when brought to bear in our understanding of global finance, seems to find particular relevance”(Langley 2003: 4).

For most mainstream IPE scholars the historical antecedents of the study of finance in global politics is based on Karl Polyani’s (1944) interpretation of the role of *haute* finance in the late 19th century. According to Polanyi, financiers at the time had no
loyalty to any one nation, but also required continental stability for continued profitable investment by governments. Thus, while financiers did fund localized geopolitical conflict haute finance remained a mediating force between the European powers that maintained the ‘hundred years peace’ (Polanyi 1944). Polyani was not the first to have made a distinction between financial and productive forms of capital. In Marxist analyses finance becomes, at particular historical junctures, the speculative and parasitical realm of accumulation that is distinguished from the more fundamental sphere of production (Langley 2003). For example, Paul Sweezy (1994) claimed that financial capital in the post-1986 deregulation era, has become “cut loose” from its original role as a modest helper of the real economy and become a speculative enterprise geared toward its own self expansion (Sweezy 1994: 7). Keynesian analysis adopted similar conceptions of the distinction between finance and production. It was this conception that formed the foundation of the justification for the Bretton Woods system of capital controls. The elimination of these controls, and subsequent dismantling of Keynesian segmentation for banking and financial services industry in 1986, led post-Keynesian analysis to re-emphasize the importance of regulating finance to harness growth and stability in the real economy.

The origins of the decoupling paradigm are not a result of the Marxist and Keynesian accounts; instead it is a product of the earlier “state and finance” debate, which considered the future of government economic policy planning in light of the new freedom of international financial movements. Contrasting John Ruggie’s (1982) claim that the postwar order was characterized by an embedded liberal compromise, the end of Bretton Woods led many classifying the state as ‘dis-embedded’ from the regulation of social-economic project (Ruggie 1982). Ben Cohen’s (1996) survey of the main literature on the state and finance debates explored the complexity of understandings about how states’ have dealt with the “resurrection of global finance” (Cohen 1996) (268). The conclusions from this debate was that states have not so much receded or retreated from the international scene as redefined their roles within it (Dombrowski 1998). Despite this amicable conclusion, the key tenets of the state and finance debate, namely that: (a) finance is global in character while the real economy is domestic; (b) the speed and
The most comprehensive text detailing the concept of the decoupling of finance from the real economy is Susan Strange’s (1986) account of ‘Casino Capitalism’. For Strange, the growing number of financial instruments, like swaps, options, and other derivatives, do more than merely disperse risk, they actually institutionalize a betting structure on corporate, bank, and government activities (Strange 1986). In this sense the global secondary financial markets are able to expand without any conditioning from the real economy. The central critique is that an “increasing volume of capital does not now 'touch down' at all—in the sense of it failing to be made concrete into productive investments” (Watson 1999: 61). Put more specifically, “financial capital once cut loose from its original role as modest helper of the real economy of production to meet human needs, inevitably becomes speculative capital geared solely to its own self-expansion…. In the last twenty years the once relatively independent financial superstructure is now sitting on top of the world economy”(Drucker 1986: 2). Thus, at the heart of the decoupling paradigm is financial market actors ability to speculate on potential movements in productive markets, and to profit or lose from these activities. This is considered not only indicative of its separateness from production, but an indictment of its own 'unproductiveness'(see) (Strange 1998).

Moreover, the sheer volume of financial market transactions, relative to trade in goods and services, provides the strongest empirical support of the concept of decoupling. In 1996, the measured volume of transactions per day in foreign exchange markets came to over $1.2 trillion per day, which equaled the value of world trade in goods and services in an entire quarter (Bello, Bullard et al. 2000: 5). The volume and value of these transactions is intended to show a growing separation between finance and production’s market activities. These market activities are considered to do more than just
institutionalize a casino mentality among financial actors they facilitate an asymmetrical power relationship between the ‘real’ economy and these financial markets. In this sense actors in financial markets seek more than a simple transaction but also to subvert economic actors in productive industry (Carchedi 1996). These actors use their access to large amounts of finance capital and exert power over the behaviour of corporations away from long-term growth, significant research-and-development spending, and limited returns on shares, towards short-term profitability and rising dividends (Bello, Bullard et al. 2000: 5). Based on this, proponents of decoupling argue that productive interests have been ‘crowded out’ by financial interests because an ever smaller proportion of money assets have been invested in non-financial endeavours (Hubner 1991; Allen 1994).

Drawing on the themes of divergence and unproductiveness, the decoupling paradigm goes further by isolating constant financial market speculation, for its own sake, as a parasitic force in the real economy, draining productive investments away from real economic growth: “the decoupling of finance from production makes production vulnerable to the unpredictable effects of financial speculation. Much of the effect of unregulated global finance is destructive of production.” (Cox 1996: 181). It is the inherent instability of constant financial speculation that underlies the concern about the increase in financial flows. Not only has a large financial bubble ballooned separately over top of the real economy, its own undulation are not self contained and can wreak havoc on ordinary people who are not market participants. As Phil Cerny (1993) claims, “financial capital calls the tune of the real economy… it has developed its own structural dynamic, a dynamic with regard to which international politics has yet to find a workable consensus on objectives or methods of control” (18).

The contours of the decoupling paradigm are largely based on interpretations of the growing significance of financial markets to the organization of the international political economy. The general theme of divergence between financial markets and the real economy of trade in goods and services becomes an elaborate claim about the triumph of finance over production. Ultimately, this plethora of financial instruments and mounting volume of speculative financial transactions is not only separate from the real economy but subverting it. It is with these dominant themes in mind that we will explore the
historical development of the credit card industry pre- and post-deregulation of financial services in the mid-1980s in the United States in order to see if divergence and subversion characterize the changes experienced in this industry.

The case of the American credit card industry

Tracing the historical emergence and development of the American credit card industry since the postwar boom provides a pertinent case study to test the claims put forward by the decoupling paradigm. Admittedly, few IPE scholars are self-admitted decoupling theorists; instead this paradigm exists as a descriptive intellectual short hand in the literature. Nonetheless, when put under the scrutiny of tracing the actual changes in the practice of a financial service liberalized after deregulation, its main claims seem to fall short. Using the credit card industry as a test case provides all the main indicators of decoupling: it uses the new plethora of financial instruments to manage their portfolios and, as a consequence deregulation, has been able to embark on an aggressive market expansion strategy. Credit cards are also the most profitable financial service. In 2004, the after-tax profits in the American credit card industry were $24.44 billion, a 50 percent increase from 2003 with reported profits of $14.24 billion dollars (Simpson 2005). If we consider that the same year (2004) all commercial bank averaged 1.98 percent return on all assets, the credit card market, on the other hand, had 3.55 percent return on before-tax earnings (Federal Reserve 2005). But, this astronomical profit rate has not always been the case. When credit cards first emerged at the beginning of the American postwar boom, and for some 30 years later, they were considered high-risk and low-profit endeavors.

The social significance of credit cards is based on its astronomical profits, which come as a result of more and more people and business using credit cards and not paying off the total balance every month and it growing social pervasiveness. While these indicators seem to support the decoupling claim, yet upon closer inspection it seems that the profitability and social presence of the credit card has come as a result of much closer integration, not divergence, between this financial market and the real economy. The
emergence of the universal third-party credit card in the postwar Fordist era, while initially created by a non-bank, was only made viable to be distributed on a mass scale because of close relations between credit card operations and large parent banks. The segmentation of the banking industry under the Keynesian state made a successful credit card operation contingent on being wholly bank based. This was because only banks had enough capital to offer the revolving balance option because of regulation that stipulated restrictions on credit creation. Thus, the postwar credit card industry can be characterized as being almost wholly separate from the real economy in the sense that it operated as a financial service offered by banks.

After the financial market deregulation in mid-1980s the credit card industry became more integrated into the real economy. This was because deregulation allowed for changes in the organization of credit card operations and more importantly changed the way credit card sponsors raised capital. The introduction of asset-backed securitization allowed both bank and non-bank (or financial and productive enterprise) to replenish capital posted for credit card portfolios without having to expand deposit bases. This opening of the credit card market attracted many non-bank actors, particularly large Multinational Corporations (MNCs). Initially, the integration of non-banks came through partnerships with existing credit card operation based on marketing strategies of co-sponsored cards, product benefit cards, and Affinity credit card schemes. Today, banks and non-banks compete on almost equal terms in the control of large credit card portfolio, and current trends indicate only further integration. Thus, it is with in mind that we trace, in more detail, the contours of the US credit card industry since its inception in 1948, to see to what degree the concept of decoupling captures these historical changes.

Credit Card Industry under Fordism

The Diners Club Card, created in 1948, was the first universal third-party credit card. The three founding partners, Frank McNamara, Ralph Snyder, and Alfred Bloomingdale, pooled their personal credit together and offered traveling businessmen credit at restaurants. Essentially, these partners acted as middlemen between the consumer and the
merchant: extending credit to one, providing customers for the other, and charging both for their services. In 1951, American Express used its market in travelers checks to extend to a similar universal third-party credit card. This marks an important historical change, because until then credit card-like facilities were only offered by retail establishment for purchases in their outlets. The universal third-party card was different because it offered a set credit limit to be used at any participating merchant.

The creation of mass credit cards in during the American postwar boom is not a sociological coincidence. The rapid socio-economic transformation that occurred in the postwar era created new consumption patterns: “private automobiles replaced public transportation, private lawns replaced public parks, and national retail chains in local malls replaced mom-and-pop shops in downtown business districts” (Klein 1999: 10). Also, credit cards were created in the same decade as other important cultural icons: the first McDonald’s, first fully enclosed shopping mall, first mass-produced suburban housing in Levittown, New York; Best Western and Holiday Inn motel chains, opening of Disneyland, as well as the beginning of mass production television sets and national television broadcasting (Ritzer 1995).

The new mass consumerism that characterized American Fordism was important in spurring an historical change in societal attitudes toward borrowing. Previously, wage-earners considered it right to save first, in order to buy later. On the contrary, in postwar America this model was reversed: people bought first and saved in the form of monthly repayments (Gelpi and Julien-Labruyáere 2000). John Kenneth Galbraith (1984) claimed that within a generation debt had become not only the norm but the expected right of virtually the entire middle class and a good section of the working class. An early report on development of mass consumer credit confirmed Galbraith’s claim that the change in the nature of work, wages, and consumption meant that households found credit an acceptable means of payment: “unable to rest their status claims on property, they were under strong social pressure to acquire the consumer goods that became the symbol of the middle-class style of life” (Chapman and Shay 1967: 3). The revolution in consumption
patterns that resulted from Fordism was, thus, a necessary condition for the acceptance of credit cards.

The nature of the relationship between the parent bank and the credit card operation proved important to the revolving third-party credit cards success (Wolters 2000). The expansion of the of Diners Club and Amex credit cards was limited by their inability to offer revolving balances, meaning the whole balance had to be paid at the end of the month. Their non-bank status made it almost impossible from them to allow revolving balances and still be profitable because they had to service their own debts to the banks. It was not until 1958, when New York’s Chase Manhattan bank and California’s Bank of America launched their respective credit cards that revolving debt option was offered. Thus, having a parent bank enhanced revenue streams because non-bank credit card issuers made money in two ways: a monthly fee from cardholders and a seven percent discount rate from the merchants. While that bank credit card used these two methods but also generated revenue through interest payments on unpaid balances.

The Keynesian state provided the necessary conditions for acceptance of consumer credit as well as tempering the expansion of consumer credit industry. The success of the bank-based credit over the non-bank operation came as a direct result of the Roosevelt government “fair lending practices”, which offered banks government-backed and guaranteed low-interest loans in order to promote equality among citizens in their opportunity to obtain credit (MacDonald and Gastmann 2000: 221). Specifically, the 1933 Glass-Steagall Act segmented the financial services industry, creating a separation between commercial and investment banking activities. This induced many commercial banks to look for new ways to expand lending to households to generate profits. The same government acts that gave incentives to banks and credit unions to lend also imposed interest rate ceilings and mandatory deposit requirements, putting limits on profitable expansion of credit cards. These regulations also stipulated important restrictions to lending by imposing a debt-to-income ratio in determining the amount of credit that could be lent. For credit card sponsors this meant that increasing credit limits to individuals was contingent on an increase in their income. Also, deposit requirements
limited the growth of the general amount of credit available for lending because it was linked to the amount of money in the deposit base. Since they had no deposits, non-banks could only increase capital through increasing their own loans from banks.

Similarly, government programs such as social security, worker’s compensation, unemployment benefits, and disability benefits may have contributed to a growing sense of overall economic security, giving individuals’ confidence to borrow, but it also limiting their need to borrow: “The existence of hospital and medical insurance, unemployment insurance, pension funds, and social security helps to protect the consumer against interruptions in his income and gives him greater ability to incur debts” (Chapman and Shay 1967: 3). This is perhaps best illustrated today, as the welfare state provisions in the US have been systematically dismantled, the largest growing market for consumer credit in America in 2003 was for payments for health insurance plans (Warren and Tyagi 2003).

The ability of Keynesian banking regulation to simultaneously promote and limit credit card expansion put non-banks at a disadvantage in the market because separation (or decoupling) was seen as the main way to contain potential banking crisis. The success of this regulation program can be seen in the success of banks, relative to their non-bank counter parts in establishing a national network of credit card issuers. In 1966, Bank of America decided to license its Bank Americard to other issuer banks across the US in order to augment its diminishing market share in California. This action effectively created a national network for credit card transactions. Other banks interested in becoming issuers of credit card joined together to create a rival national network called the Interbank Card Association, which created the MasterCharge credit card. These two national credit card systems enabled the cardholder to use a credit card for purchasing goods in areas served by other banks. Such an arrangement made it possible to transfer sales drafts from the bank of the merchant who accepted payment with the credit card to the bank of the cardholder for collection. The interchange, in effect, transformed local cards into national cards. The ability to form industrial alliances was not afforded to
either Diners Club or American express who had to finance expansion through their own profits.

Without access to the plethora of financial instruments used by credit card companies today to bolster profitability, the early issuers all used the same strategy, for almost twenty years, of pursing economies-of-scale because it reduced the cost-per-unit for distributing and servicing of customer accounts and increased the income from merchant commissions as more customers obtained cards. This meant that the marketing campaigns for the expansion of credit card market concentrated on two things: the merchants and the consumers. Since merchants would not sign up unless there was a sufficiently large number of card carriers in their area, and consumers would not sign up unless there was a sufficient number of merchants who accepted the card, both required credit card companies to solicit new customers on a mass scale.

The bank sponsored credit cards had the advantage by marketing to their existing merchant and customer account base. The non-banks, on the other hand, had to solicit their customers independently. Similarly, interest rate ceilings, segmentation in the financial service industry, limitations to total amounts allowed to lend customers in specific income categories, and legal restrictions of implementing annual fee, all stifled profitable credit card expansion (Gelpi and Julien-Labruyáere 2000). As a result of these regulations both banks and non-banks focused almost entirely on poaching each others mature accounts (an account with a solid record of timely payments). The deposit requirement imposed on banks meant that delinquencies directly tied up existing credit limiting the expansion of credit, thus mature accounts were more cost effective because they were less of a credit risk. It was this factor that prompted Amex to introduce the Gold Card to coax mature bank customers with a status symbol that offered price protection guarantees, insurance on purchases, travel insurance, and no credit limit (but Amex is a charge card, so balances could not be revolved).

The integral role that Keynesian inspired banking regulation played in the creation and promoting of the credit card industry cannot be underestimated. The segmentation of the
banking industry promoted the expansion of household access to credit, while full employment policies and the welfare state created the necessary conditions for the re-orientation of wage-earners toward mass consumption. But, these same provisions also limited the expansion of the credit card industry. The dominant characteristic of the credit card industry at the time is its separateness from the real economy, being almost entirely bank based was an intended consequence of regulation aimed at limiting financial market failure on the real economy.

Credit Card Industry after-deregulation

The abandonment of Bretton Woods’ gold-dollar standard in favour of floating exchange rates as well as abolishing capital controls significantly liberated international financial markets. The initial wave of deregulation of international finance in the early 1970s had only a limited impact on the organization and orientation of credit card firms. Perhaps the greatest contribution was a changed political climate that sought not to intervene in financial services integration and expansion (Coleman 1996). It was not until the second wave of deregulation in the mid-1980s that the credit industry was sufficiently liberalized to expand virtually unabated (Watkins 2000). In fact, the expansion of the credit card industry in the last thirty years could hardly be rivalled. The sheer number of credit cards in circulation today, its profitability and global market penetration, compared with its meagre existence in the postwar era, are a testament to the significance of the changes that occurred in the credit card industry post-1970s.

The US began its initial public consultation on the deregulation of consumer credit industry in 1972 with the creation of the US Commission on Consumer Finance. The conclusions of this commission meant that, from 1974 to 1980 seven different US laws were amended to pave the way for deregulating consumer credit markets, with provisions for clarity and equal opportunity replacing ceilings and regulation that controlled over-
borrowing and over-lending.\textsuperscript{1} Also, a US Supreme Court ruling in 1978, weakened the broadest measures of state usury laws but kept in tact protections for consumers from excessively high interest rates and fees. The rulings allowed national banks to charge the highest interest rate permitted in the bank’s home state—as opposed to the rate in the state where the customer resides.

The result of this initial deregulation was a streamlining of inter-state credit card operations; this allowed Bank Americard and MasterCharge to change from exchanges into conglomerates in 1971 and 1972, respectively. This allowed these firms to act as a hub-and-spoke with participating bank issuers, lowering costs of production through shared technology. Thus, all participating banks acted as self-governing partnership to manage and settle credit card transactions. This was done by creating a for-profit, non-assessable corporation (limiting the obligations and liabilities of participating partners) meaning both credit card companies were no longer clearing houses but a conglomerate of banks, industry, and payment clearing centers (Chutkow 2001: 100-118). These new nation wide conglomerates also allowed for greater cost reduction and increased revenue streams, mainly through outsourcing, technological upgrade, and the introduction of annual fees. In order to control costs both MasterCharge and Bank Americard contracted out processing and customer service to third-parties with lower rent costs and cheaper labour (Slater 1992).

In the early 1970s MasterCharge and Bank Americard also allowed duality among its issuers, meaning both major credit cards could be made at the same bank (Mandell 1990). This created an important separation between the credit card company and the third-party issuers. Both MasterCharge and Bank Americard’s used their primary role was as facilitators of bank information to offer a franchised brand of credit card to banks that use the card to provide credit to millions of people around the world. To support the use of those cards, MasterCharge and Bank Americard promoted their ability to deliver

information services such as card-use authorization and the settlement of transactions among member banks. To support the new efficiency as a vast payment system the credit card companies began to focus on brand creation to facilitate further market expansion (Chutkow 2001). This became the cornerstone of its plan for global expansion in the late 1970s. Both groups planned to sell their technological expertise to merchants and banks abroad, while emphasizing the convenience and cultural icon of the credit card to consumers. In order to facilitate better brand recognition both companies changed their names to Visa and MasterCard, in 1976 and 1980 respectively, to reflect their new global image. Bank Americard feared that the American image would hinder European expansion, while MasterCharge tried to side step any social debates about the hedonism of charge cards.

The next significant development in the credit card industry was industrial partnerships with large MNCs. Initially, the relationship between bank and non-bank actors was to create intensive marketing strategies based on reward scheme cards, co-branded cards, and Affinity credit cards, which were aimed at expanding market share and altering card use consumption patterns toward revolving balances. What is significant about this expansion of the credit card market is that it did not come as a result of a ballooning of financial markets, but because of the active participation of non-bank actors. Contrary to conceptions of decoupling, the inclusion of real economy actors in the expansion of the US credit card industry, as a result of banking deregulation, suggests that convergence and integration was the key to success in this financial service industry.

The key to this integration was the official ability of non-banks to have credit card operations and the advent of asset-backed securitization. The formal introduction of non-banks to the credit card business was based on an exemption to the 1987 Competitive Equality Company Act, which excluded credit card banks, and a few other special purpose banks, from the new definition of a “bank.” The most significant development

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2 Prior to the 1987 act, the Bank Holding Company Act of 1956 prohibited nonbank companies from owning banks. In the early 1980s several non-financial firms found that they could conduct credit card business by acquiring so-called non-bank banks. Since non-bank banks limit their operations to either deposit taking or lending, they did not legally meet the Bank Holding Company Act's definition of a "bank"
in the US credit card industry that came as a result of deregulation in 1986 was the ability of banks, and non-banks, offer asset-backed securities (ABS). The impact of ABS on the credit card industry has been unprecedented growth and competition from banks and non-banks to expand their credit card portfolios. Originally, only AmEx, Diners Club, and Sears Reobuck were major non-bank players in the credit card market, but the advent of ABS made it a viable investment for any large corporation with enough capital to become a third-party issuer (Lerner 1990). Now firms like AT&T, General Electric Capital Corporation, First USA, ADVANTA Corporation, and Ford Motor Company became part of the top twenty-five largest credit card issuers (Meyercord 1994).

The creation of an ABS is known as securitization the specific financial vehicle that deals with credit card loans is known as CARDs (certificates for amortizing revolving debts). First created by Solomon Brothers Bank in 1986, the growth and increasing complexity of CARDs has provided alchemy for banks by transforming often risky loans into attractive packages for big investors (Cocheo 1993). Securitization involves the bundling and sale of credit card receivables into a pool of loans that are placed in a special subsidiary or trust. These trusts are backed by a certificate and investors can buy the certificates or shares in the trust and receive interest and principal payments as the loans are repaid. This process improves bank profitability because, unlike syndicate loans, ABS create liquid, fixed-rate, investment-grade obligations with spreads of 10 to 100 basis points over US Treasury obligations of comparable maturity. The income earned on the loan pools pays the interest on the securities. The bank earns a profit because it receives a higher interest rate on the loans than it pays on the securities. This arrangement is maintained in exchange for the issuer’s obligation to service the loans. But as a result, the issuer removes the loan from its balance sheet.

The primary advantage of securitization is that it allows for the rapid re-capitalization of loans, meaning that banks can offer more credit without having to post new capital. Thus,

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3 Major corporations who entered the market are Household International, General Electric, J.C. Penney, The Associates (owned by Ford Motor Corp) but other retailers, manufacturer, securities firms, insurance companies have also become issuers.
Securitization is primarily used to raise funds rather than simply disperse risk. ABS provides a competitive advantage to third-party issuers attempting to increase market share because when the loan capabilities of the bank exceed funding growth, securitization allows the institution to expand loan volume faster than deposit growth (DeSear 2004). This further opens the credit card industry because credit card sponsors do not need relying on deposits for capitalization for loans; instead they are using new ABS issues to re-capitalize their existing credit pool. Also, offering securities as low-risk, fixed-rate investment, has allowed third party issuers to lower the cost of funds in relation to the interest they charge cardholders, thereby increasing profits (Simpson 2005).

According to one banker, “securitization has totally changed the credit industry in terms of how fast the market can grow as well as sparking competition that led to lower interest rates and annual fees” (Hull and Annand 1987: 138). Alongside ABS third-party issuers use other financial instruments to diversify the risk of these loan pools through vehicles like interest-rate ‘swaps,’ where interest payments contracts are exchanged, bet, or hedged, on different markets (Punch 1998).

Recycling pools of funds, thereby reducing the overall costs of funds, through securitization increased the supply of credit available to issuers. Contrary to creating an inflated financial bubble separate from the real economy, this financial bubble was created with full participation of major real economy actors. Freed from the restrictions of capitalization requirements and the lower cost of funds third-party issuers sought out new, bolder, avenues for expansion. The initial focus of cooperation was marketing initiatives aimed at altering consumption patterns among credit card users to facilitate revolving balances, the most profitable stream of revenue for issuers and sponsors. An added bonus for MNCs would be advertising, promotion, and more consumption of MNCs goods. This union created the first ‘product benefits card’ which gave holders points for every dollar purchased using credit cards. These reward schemes were intended to encourage more widespread use of credit cards to increase merchant discount volumes as well as interest from revolved balances. The most famous product benefit card is the Air Miles card, which gave air travel points based on the billed amount each period. Credit card companies also teamed up with industrial producers to created co-branded
cards product benefit cards. For example, in 1992, General Motors, General Electric, and Ford entered the credit card market with co-branded cards, giving holders points toward the purchase of a new vehicle or items from GE catalogue.

Today, new reward schemes are targeted at existing ‘revolvers’, as they are known, a remarkable change from the ‘mature account’ approach of the 1960. For example, the TravelPlus airline card offered by the American Bank One is aimed at holiday-makers because vacationing was revealed to be the most likely place individuals will over-spend on their credit cards (Lucas 1994). Also, there has been a large migration from classic store cards to co-branded retail credit cards. This means the customers’ new retailer/bank co-branded credit cards earns them loyalty points at the parent store, with more points earned for money spent in-store than money spent elsewhere. In this case both major retailers and issuers have teamed up to distribute new types of store-cards explicitly to access the millions of existing store card holders, knowing that historically these groups rarely default on their credit debts, and sell them other related bank financial products (Aldridge 2004).

Based on the success of the reward card schemes, both banks and non-banks sought market expansion through a new marketing device called the Affinity Card. There are two types of affinity cards: lifestyle cards, which are marketed to people with a particular interest, often a charitable cause, and which provide the charity with some form of remuneration for the use of the cards; and personality cards, which have sought to cash in on the public’s fascination with certain individuals, such as Elvis Presley or Madonna (Schlegelmilch 1995). Most affinity card issuers did not focus on ‘poaching’ existing customers away, instead they anticipated that most new customers would already have multiple credit cards but would sign up for an affinity card for their novelty. This marketing campaign was successful because personalized cards provided an incentive for consumers to accept a new card opposed to merely switching from a previous card expanding the size of the market (Worthington 1997). It also allowed the banks and issuers to target groups with known financial attributes resulting in reduced credit risk and often increased credit card spending volume. The success of the Affinity card
program formed the basis of the expansion of US credit card banks across the globe. MBNA, the largest credit card bank, used Affinity card programs to create a client base in the United Kingdom, Europe and East Asia.

The extensive participation of non-banks in the credit card market calls the analytical purchase of the decoupling paradigm into question because the increasing trend of non-bank participation in credit card indicates a process of convergence between finance and the real economy not divergence. Today, many large credit card portfolios (sum of issuer’s non-delinquent accounts) have been created and maintained by non-banks through various marketing strategies. Until the end of the 1990s, the sale of credit card portfolios was usually part of merger negotiations but, as a result of the credit card industry’s relentless expansion, today they are bought and sold like stocks (Simotas and Weisel 1991).

The ability to offer asset-backed securities was arguably the most important feature of the expansion of the US credit card industry since 1986. Utilizing securitization as a financial vehicle is neither speculative nor parasitic instead it is an off balance-sheet exercise to replenish funds without having to access new credit. The inherent instability here is not a matter of footloose financial traders ‘churning’ short term positions for the sake of commission, nor making a speculative run, instead critics have argued that securitization is “the glue that has prevented credit card profitability from deteriorating sooner… and a decline in securitization that is bound to follow and will create rising credit card delinquencies, which will adversely affect capital adequacy and costs of funds for the banks” (Celarier 1996: 10). The weakness of securitization is it is merely a temporary transfer of risk, the bank still incurs all the cost of managing the individual accounts: it can increase the credit limit, change the interest rate and so on. If the attractiveness of CARDS as a derivative falls credit card issuers will lose their ability to post more capital dwindling credit card users access to credit. A similar situation happened in South Korea when banks were unable to extend more credit on credit cards their was panic at cash machines (Jung 2003).
This case study of the creation and evolution of the US credit card industry runs counter to many of the basic tenets of the decoupling argument. Contrary to claims of divergence between finance and the real economy after financial deregulation the credit card industry has experienced unrelenting integration with large corporations and civil society groups. The ability to securitize loans to fund expansion into the real economy also runs counter to claims that financial instruments used bet, hedge, and speculate on market movements forms the foundation of financial market expansion since deregulation. Abandoning the concept of decoupling does not, therefore, require we look merely to the real economy to understand the expansion of financial markets. On the contrary, we must understand the expansion of the US credit card industry as part of a larger structural transformation toward financialization.

**Conclusion: financialization as an alternative to decoupling**

The concept of ‘financialization’ understands the growing volume of financial transactions and influence of financial market actors as a process of social re-structuring. While the decoupling argument emphasizes the dominance of financial market imperatives on the separate real economy, the concept of financialization claims that wholesale changes in the firms’, governments’ and households’ profit strategies has moved away from Fordist notions of productive investment, toward financial markets imperatives based on returns on investment. While the example of the credit card industry would remain an outlier in the decoupling account of rise of global finance, the concept of financialization sees the integration of MNCs and banks in the credit card industry as integral to this larger social process.

Current accounts of financialization examine how the financial market logic of ‘returns on investment’ has pervaded firms and households tactics of profit making: “financialization is the concept that covers both the routing of middle-class savings for retirement through the capital market and the stock market's pressure on corporate management for higher rates of return” (Williams 2001: 405). Similarly, the logic of financialization informs the logic of economic governance for states and global
institutions: The financial system now occupies the central place, previously held by the wage compromise, as the primary regulatory principle of capital accumulation (Boyer 2000: 118). Financialization, it is argued, is a social force for change that has affected all institutional forms: firm governance, the state’s position in the economy, the role of central bank in policy making, the conditions of households’ participation in labour markets and corresponding effect on aggregate demand. Using this account we can understand the deregulation that spurred the expansion of the US credit card industry as a result of the changing logic of economic governance of states, not a resurrection of global finance.

Moreover, financialization is considered a social process that is historically distinguishable from postwar Fordism. Paramount to the French Regulation School’s account of financialization is the historical break with postwar Fordism. Under Fordism the primary regulatory principle revolved around the social mediation mechanism of the postwar wage compromise. Economic growth was based on the co-constitutive forces of mass production and wage-based mass consumption; where increased industrial productivity formed the core of capitalist social progress at the time. But, by the 1970s stagnating growth and high inflation (stagflation) meant this form of economic growth lost its ability to reconcile the competing interests of states, firms, and households. The core regulatory feature of finance-led growth was the replacement of the wage/productivity nexus with a financial/stock market nexus, where economic expansion is based on channeling international credit through investments and wealth is transmitted through equity markets. Opposed to understanding the influence of financial markets on the real economy and the state in parasitic terms or as a domination of one over the other; financialization highlights the inherently political movement which has brought together the interests of factions within the banking and financial services industries, governments and central bank policy makers, as well as high income households to address the weakening profitability of the Fordism and to bring an end to elements of Keynesian financial market control.
In this sense the concept of decoupling over-generalizes the degree of separation of the financial markets from real economy. The fundamental change brought about by financialization has “created a new set of institutions and regulating mechanisms that led to alterations in macroeconomic performance, productivity trends, income distribution, capital accumulation and the type of fluctuations experienced in the business cycle” (Aglietta and Breton 2001: 435). The resulting changes in firm structure are based on alterations of orientation of firms to maintaining international credit ratings and increasing ‘shareholder value’ (Froud, Haslam et al. 2000). These market forces have exerted pressure on firm management strategies. In the aftermath of Fordism, the Multinational Corporation (MNC) re-directed firm strategies toward conglomerate structures, where owning different assets across markets replaced vertical integration strategies. MNCs looked toward global expansion, opposed to economies-of-scale, to increase profitability. The advent of information technology, to some degree, replaced labour intensive business operations and intensified the speed of market communication. Marketing strategies moved away from product reliability toward ‘brand name’ creation in which images of the success and prowess of the consumers of the product replaced the quality of the object itself. Also, firms focused their activities on gaining ever-increasing returns to shareholders. This required management strategies of firm downsizing, outsourcing, and restructuring to elevate share prices.

The similarity with changes in the credit card firms in the creation of a conglomerate structure, outsourcing, and technological sophistication as the foundation of brand creation and expansion. Moreover, the combined effort of MNCs and credit card companies in the creation of reward-scheme cards, co-branded cards, and Affinity cards, coincides with the larger trend based on the creation of symbolic forms of consumption tied to consumer sophistication or social inclusion. In this way, financialization offers a detailed analytical account of firm restructuring in credit card industry that rejects notions that these changes came about as a result of being liberated from the confines of the real economy; instead it sees these changes as being a part of a larger process of social restructuring that influences the nature of institutional change.
This means that, contrary to financial markets decoupling from the ‘real’ economy of production, both financial and productive sectors, as well as the household, states, and the orientation of the global political economy, have changed their institutional priorities from those prominent under postwar Fordism toward a process of financialization. In this case, the growing social presence of the credit card, and its profitability, can be seen as part of larger structural change in the form and function of the global political economy.

The purpose of this paper is to ask whether the concept of decoupling could account for the changes in the structure and social impact of global finance since 1986? Based on an historical analysis of transformations in the consumer credit industry, this paper concludes that the expansion and increased profitability of consumer credit industry is part of a broader process of the financialization of capital accumulation. In fact, it was under Fordism that the credit card industry was most ‘separate’ from productive enterprise. A dependent relationship with parent banks and limited marketing strategies focused on poaching mature accounts off competitors was the sole focus of the credit card industry up until the mid-1970s. Then the creation of a conglomerate firm structure and separation from parent banks allowed multinational corporations (MNCs) to become small players in the credit card industry. More importantly, the creation of the reward-scheme credit card initiated a formal partnership between many leading MNCs and credit card companies. The aim of the scheme was to change the sluggish consumption patterns of consumers at the time by increasing credit card transaction volumes, which offered rebates in MNC products and increased potential for revolved balances. This integrated market approach demonstrates exactly the opposite trend than that of decoupling.

Admittedly, by focusing exclusively on the notion of decoupling, which has neither canon texts nor authors who are self-proclaimed ‘decoupling’ theorists, this argument runs the risk of having merely created a straw-man slain easily by the concept of financialization. Baring this in mind, it seems important to re-emphasize that the purpose here was to elucidate some of the most prominent themes in the study of global finance and put them to the historical test. By interpreting the ramifications of financial market growth only in terms of its current expansion seems to obscure an important question,
what has changed in the structure and social role of global finance since the end of Keynesian regulation? The dominant themes of the decoupling are also present in the concept of financialization but they fundamentally differ in their account of what these developments mean. In this sense, the purpose here is to vanquish the phantom of decoupling. These well rehearsed set of assumption have a strong descriptive character, but obscure more than they explain in the analytical understanding how global finance has changed the orientation and social processes in the global political economy.
Bibliography


