Manufacturing Debt: A History of the Bank Credit Card Infrastructure

by

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A thesis submitted in conformity with the requirements for the degree of Doctor of Philosophy
Department of History
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Abstract

This dissertation provides a history of the bank credit card infrastructure in the United States from 1952 to 2007 and outlines the bank management strategies, tactics, and philosophies that helped to transform the bank credit card into a tool for survival. The dissertation traces the commercial bank management strategies, tactics, and philosophies that guided the development of the bank credit card ‘infrastructure’ and were integral to the manufacturing of debt and a financial system that enabled the widespread distribution of precarious debt. The dissertation argues that the infrastructure that makes up the credit card is simultaneously, one, the technical creation of a payment platform; two, the creation of new ways of managing and planning in banking; and three, represents explicit efforts to alter the legal, social and economic conditions that banks and payment companies operated in. It examines how postwar military inspired corporate strategies guided the design, construction, and growth of the bank credit card associations responsible for the growth and development of the bank credit card ‘infrastructure.’ The dissertation claims that beginning in the mid-1960s, American commercial bankers utilized an ‘environmentality’ approach to management, that is, they used a variety of governance techniques and strategies to understand and deliberately attempt to alter their external environment, or those external elements not under the direct control or ownership of the bank, to
ensure the bank credit card’s long-term survival and growth. This systematic or environmental approach to understanding a bank’s milieu provoked bank officers into taking pre-emptive measures to avoid, eliminate, or capitalize on the risks associated with these external variables. By detailing these banking strategies, pre-emptive actions, and their effects, the dissertation claims that the 2007-2008 global financial and economic crisis was not a mistake but rather a consequence of the manufacturing of debt.
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Chapter 1

Introduction

1 Introduction

In early January 2011, the New York Times ran a story for their blog ‘The New Old Age’ detailing the financial precarity of senior citizens living in the United States. The story highlighted that a growing number of people over the age of 55 held or wanted jobs, and lived in a state of financial precarity. However, the primary focus of the story was on the debt that senior citizens carried, and in particular, credit card debt. The Times, citing a study conducted by Demos, reported that the average credit card debt for people over 65 in America was $10,235. To illustrate the toll that this credit card debt had on the elderly, the Times began their story with anecdotes focused on 86-year-old Bill Freedman and 76-year-old Agnes Brady.

Nancy Freedman thought that her 86-year-old father, Bill, had financial security for his later years in life. He had a comfortable income comprised of social security, an individual retirement account, some investments, and inheritance. While Freedman was not wealthy, his daughter felt that every precaution had been taken to ensure her father’s financial well-being. In October 2010 that all changed. Freedman visited her father’s apartment after he took a fall and noticed that he had several credit cards in his home. It was a disheartening discovery, as she soon realized that her father was not financially secure: he was actually in debt.¹

76-year-old Agnes Brady faced a similar situation to Freedman. Brady was an ideal credit card customer, as she had an annual income of $42,000 and had little outstanding debt, and soon had credit cards with Macy’s, TJ Maxx, and a Visa card issued by Bank of America. Brady saw her indebtedness grow as medical bills and rent combined with other expenses made it harder for her to pay her credit card bills on time. Brady’s credit card interest rates, adding to the difficulty of


² Christine DiGangi, “What Happens to Your Debt When You Die?,” MarketWatch, May 29, 2017,
escaping increasing indebtedness, varied from 21.9% to 23%. In short order, Brady owed credit card companies over $22,000, nearly half of which she owed to Bank of America.

Bill Freedman and Agnes Brady are not exceptions or outliers. They are examples of an increasingly common occurrence in the United States. Over 30% of unemployed Americans over the age of 55 have more credit card debt than retirement savings. Medical bills, not frivolous spending, serve as the leading contributor to this credit card debt – a fact that cuts across all age groups. As this evidence illustrates, credit cards are more than just a tool for car rentals or hotel bookings. These credit devices represent a critical financial lifeline for close to 40% of households in the United States, and an unequal portion of this 40% are African Americans, Hispanic Americans, as well as single women; a fact that highlights the gross inequities that accompany the bank credit card infrastructure. These households need their credit cards to pay for necessities such as rent, groceries, utilities, and insurance. Today, nearly half of all people living in the United States - like many that came before them - need credit to live.

This dissertation provides a history of the bank credit card infrastructure in the United States from 1952 to 2007 and outlines the bank management strategies, tactics, and philosophies that helped to transform the bank credit card into a tool for survival. The bank credit card began in 1952 when the Franklin National Bank became the first American commercial bank to introduce a bank credit card plan, an act that encouraged other American banks to follow suit and enter the credit card market. Over a half-century later, rising American mortgage, auto, student, and credit

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3 Pham, “Retirements Swallowed by Debt.”


card debt and commercial bank management practices led to the 2007 financial and economic crisis. The dissertation, to illustrate the link between the bank credit card, widespread indebtedness, and financial crisis, builds on the excellent existing work on payment that exhibits how the credit card is more than just a plastic card but an infrastructure composed of cards, machines, communications networks, financial institutions, merchants, and cardholder.\textsuperscript{7} It adds to this work by tracing the commercial bank management strategies, tactics, and philosophies that guided the development of the bank credit card ‘infrastructure’ and were integral to the manufacturing of widespread precarious debt and a financial system that enabled this distribution of precarious debt.

The dissertation emphasizes how the construction of the bank credit card infrastructure involved a remarkable transformation in bank management techniques and organizational philosophies, which led not only to the reorganization of the very business of banking but also to the alteration of the banking environment. It is a history of how white male bank officers reacted to technological innovations, a reliance on white women workers, and accusations of racist and sexist lending discrimination, while also continuously searching for ways to pre-emptively act on the external elements that exerted an influence on their firm’s operations (e.g., bank regulations). The dissertation is not a celebration of the ‘accomplishments’ of these officers but rather a detailed indictment of how white male bank officers worked to manufacture debt and a financial system defined by mounting financial inequality and precarity. As a result, the dissertation argues that the infrastructure that makes up the credit card is simultaneously, one, a means for banks to distribute consumer credit, two, the technical creation of a payment platform; three, the creation of new ways of managing and planning in banking; and four, represents explicit efforts to alter the legal, social and economic conditions that banks and payment companies operated in, or their environment.

The dissertation claims that beginning in the mid-1960s, American commercial bankers utilized an ‘environmentality’ approach to management, that is, they used a variety of governance techniques and strategies to understand and deliberately attempt to alter their external environment, or those external elements not under the direct control or ownership of the bank, to ensure the bank credit card’s long-term survival and growth. The external environment included economic, political, technological, legal, and social spheres, where there were variables or events that did not always directly impinge on daily business operations but strategists and bank officers identified as having a subtle impact on the overall operations of a bank. This systematic or environmental approach to understanding a bank’s milieu provoked bank officers into taking preemptive measures to avoid, eliminate, or capitalize on the risks associated with these external variables. By detailing these banking strategies, pre-emptive actions, and their effects, the dissertation claims that the 2007-2008 global financial and economic crisis was not a mistake but rather a consequence of the manufacturing of debt.

1.1 Manufacturing Crises: Why This Research Matters

Despite high debt levels, the Bush administration gave people in 2006 every reassurance that the economy was strong.\(^8\) After all, consumer spending, partially facilitated by credit card use, continued to rise. However, consumer spending was not indicative of the state of the finances of the average household in the United States.\(^9\)

Declining or stagnant incomes placed many living in the US in a situation where they needed to use their credit card to survive.\(^10\) From 1979 to 2005, 80% of Americans saw their incomes grow

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\(^10\) As economist Paul Krugman noted at the time of the financial crises, "It's a great economy if you're a high-level corporate executive or someone who owns a lot of stock. For most other workers in the US, economic growth is a spectator sport." However, economic growth was not a spectator sport. Most people served as more than spectators to this rapid and rabid redistribution of wealth. As they watched corporate profits soar and the number of billionaires increase, workers were more productive than ever before, Greenhouse, "‘The Big Squeeze.’"
only 6%, as compared to the 228% increase in income experienced by the other 20% of Americans. In 2005, the majority of people living in the United States were dedicating 40% of their monthly income to pay down outstanding debts. In comparison, in 1945 only 3.5% of the income of most households in the United States was used to pay down debts and by 1965 the percentage increased to 15.2%. This pre-recession number represents the continued development of the debt economy, where the people living the United States regularly relied on debt to live. As historian Louis Hyman explains, the growth of the postwar US economy relied heavily on individual indebtedness.

This heavy reliance on debt to satisfy government and corporate objectives of consistent economic growth reached a fevered pitch by 2007. Financial firms with little regulatory restraint produced an immense volume of risky loans in the hope that strong economic growth, easy short-term credit, and rising housing prices would continue indefinitely into the future. Before the crisis, thanks to unrestrained lending practices, US credit card debt stood at close to $1 trillion. In 2006, people living in the United States were ‘super-sizing’ their credit card balances, with the average household having eight credit cards with an average outstanding debt of over $7,500.

Credit card debt helped to make the credit card industry the most profitable financial service in the United States and the payment corporations Fortune 500 companies. Before the financial

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14 Greenhouse, “‘The Big Squeeze.’”
crisis, credit card issuers were making $2.5 billion a month in profits before taxes. These gains were highly concentrated in those financial firms that were considered ‘too big to fail,’ with ninety percent of the credit card balances held by only ten credit card issuers. Credit card profits reflect a wider historical trend in the financial industry. Since the end of the 1970s, banks and other financial firms saw the amount of debt they held enlarge from $3 trillion to $36 trillion. The debt economy is very profitable for creditors but inherently precarious for debtors.

With less money and savings in hand, many households chasing personal financial and economic stability and the ‘American dream’ of homeownership were susceptible to and sold high-interest credit cards and subprime mortgages they could not afford. Legal scholar Ronald Mann claims that much of this debt came from the financial industry's development of sophisticated subprime lending practices, which used data and credit scoring techniques to target customers who were on the verge of bankruptcy. This group of financially vulnerable people represented the greatest source of profits for credit card issuers and helped to account for 80% of the industry’s profits, gained from interest charges and fees. Captured by financial firms, precariously positioned debtors found themselves in a situation where, thanks to high-interest rates and exorbitant fees, many could never accumulate enough assets to ever escape poverty – they were in a “debt spiral” or “poverty trap.”

20 Freeman, “Payback,” 154.
21 Ibid.
In 2007, an $8 trillion ‘housing bubble’ popped, as debtors simply could not afford these predatory loans and creditors became overleveraged. The poverty trap had seemingly spiraled into a debt abyss. What resulted was widespread insolvency and painful deleveraging, a period that was called the 2007-2008 financial and economic crisis. As the bubble popped, almost a trillion dollars of household wealth disappeared. Countless people who had invested their money with or in these financial firms saw their retirement accounts, housing assets, and life savings disappear in an instant. Between 2007 and 2009 as banks, regulators and lawmakers tried to devise a way to keep the US financial system operational, the net worth of households in the United States and nonprofits fell from $69 trillion to $55 trillion. In the wake of the financial crisis, many people for the first time in their lives had to face a future with no savings, job, or house. They were, however, left with both personal and public debts.

Federal lawmakers seemingly only had two options. They could either let the banks fail and potentially see this financial system collapse, or “inject trillions of taxpayer dollars into the financial system and an array of companies, as millions of workers still lost their jobs, their savings, and their homes.” The government, employing crisis governance techniques, decided to go with the latter option, spending an estimated $10 trillion of federal funds in an attempt to stabilize the hybrid crisis-ridden system. Many of those living in the US had lost their

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22 Overleveraged refers to the situation when a business is unable to make interest payments on their loans because they are carrying too much debt; Michael J. de la Merced, “Adding Up the Bailout,” The New York Times, DealBook (blog), February 9, 2009, https://dealbook.nytimes.com/2009/02/09/adding-up-the-bailout/.

23 Deleveraging refers to the practice of reducing debt levels by quickly selling assets.


26 Cultural political economist Paul Langley has demonstrated the importance of crisis governance in the wake of the 2007-2008 financial and economic crisis, highlighting how the crisis was rendered into a set of “relatively discrete technical problems that each required their own dedicated response and which delimited and depoliticized crisis governance,” Paul Langley, Liquidity Lost: The Governance of the Global Financial Crisis, 2016, 174. Merced, “Adding Up the Bailout.”
livelihoods and now were tasked with bearing the burdens of the costs of fixing a $10 trillion failure.

With the rise of populist and ethno-nationalists groups (e.g. the Tea Party), there were sects of American citizens who placed the blame for the financial crisis on the regulatory actions, meddling with the free market, undertaken by the Federal government and financial regulatory agencies. Others pointed the finger squarely at those who were in charge of the financial firms. The Obama administration decided to form the Financial Crisis Inquiry Commission in 2009 to identify the reasons for this dramatic economic failure. The Commission released its report on January 27th, 2011. In their report, the Commission cited problematic corporate governance structures in the banks, financial deregulation, a high concentration of risky investments within large financial firms, and bad risk management practices as the driving factors behind the crisis. In other words, the Commission blamed bank managers and executives for the crisis.

In the report, the Commission concluded that bank management and federal regulators too often relied upon the assumption that:

…Instincts for self-preservation inside major financial firms would shield them from fatal risk-taking without the need for a steady regulatory hand, which, the companies argued, would stifle innovation. Too many of these institutions acted recklessly, taking on too much risk, with too little capital, and with too much dependence on short-term funding.

This assumption that self-preservation precluded the need for regulatory constraints is characteristic of the understanding of the economy offered by Chicago School economists and advanced by bank lobbyists. As David Rockefeller, former chairman and chief executive of Chase Manhattan Bank and Ph.D. graduate in economics from the University of Chicago, explains, central to the Chicago School’s understanding of the economy was the belief that “government should not interfere at all with the market and the natural pricing mechanism.”

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Chapter 6 details, beginning in the 1960s, bank lobbyists advanced this understanding of the economy to expand bank powers and remove the regulatory constraints instituted by the Bank Acts of 1933 and 1935.

The Commission claimed that financial firms tied their confidence in self-preservation to the mathematical models they used to predict and justify “acquiring and supporting subprime lenders and creating, packaging, repackaging, and selling trillions of dollars in mortgage-related securities, including synthetic financial products.” These firms placed a heavy emphasis on risky trading practices that attained the highest profit margins. The Commission’s report claimed that these financial firms demonstrated that “too big to fail meant too big to manage.” In their report, the ten-member Commission concluded that the 2007-2008 financial crisis resulted from, “human mistakes, misjudgments, and misdeeds that led to systemic failures for which our nation has paid dearly.” The Commission was not alone in feeling that bank management was largely to blame for the financial crisis. Chapter 4 describes how these mathematical models entered into banking in the 1960s.

In his testimony before the Commission, CEO Jamie Dimon of America’s largest bank, JP Morgan Chase, placed the blame for the financial crisis squarely on “the management teams 100% and… no one else.” For its risky lending practices, Dimon’s firm paid the largest settlement in US history ($13 billion in restitution). Philip Falcone, the billionaire co-founder of Harbinger Capital Partners, testified in front of Congress that “short selling, or betting on a stock to fall, did not put companies out of business; instead, bad management and overleveraged

31 Ibid.
32 Ibid., XXIII.
33 Ibid., 18.
balance sheets were to blame for company failures." Dimon and Falcone’s statements point to an important, but often overlooked element of the bank credit card infrastructure, the techniques and strategies used in bank management practices. This dissertation, as a whole, argues that bank management strategies and techniques are crucial components in the development and growth of the bank credit card infrastructure.

The Commission, despite a significant focus on management practices, was careful to point out that the recession was a systemic failure of the US financial system. This dissertation builds on the Commission’s conclusion that the accelerated circulation of capital, competitive profit orientation, and large concentration of debt in a small number of financial institutions was central to this ‘systemic failure.’ It builds on this conclusion by investigating the relationship between postwar bank management strategies and techniques and the processes involved in manufacturing debt and a US financial system susceptible to such a devastating crisis. The dissertation understands the widespread distribution of precarious debt that was a feature of the 2007-2008 financial crisis as a hybrid and systemic, rather than market or policy driven, problem. This understanding means that the focus of the dissertation is on tracing the network of actors responsible for actualizing our contemporary financial system and combining this work with a history of the technologies that continue to enable the mass transference of debt and wealth across the globe.

For instance, supporting the accumulation of over $1 trillion in credit card debt is Visa’s technical payment processing capabilities. VisaNet, or Visa’s global payment cyber-infrastructure, is capable of processing over 24000 transaction messages per second, a feat made

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37 The report noted: "It soon became clear that risk—rather than being diversified across the financial system, as had been thought—was concentrated at the largest financial firms," Financial Crisis Inquiry Commission, The Final Report of the Financial Crisis Inquiry Commission, 22.
possible by millions of miles of fiber-optic cables. VisaNet enabled Americans to use their credit cards over 111 billion times in 2016. These transactions are also made possible by governance strategies and organizational arrangements, outlined in Chapter 5, that led collectives of commercial banks to form the bank credit card associations that would evolve into Visa and MasterCard and allow the joint-financing that facilitated the design and construction of this cyber-infrastructure.

In addition to these strategies and arrangements, was a Chicago School inspired understanding of the US economic and legal system advanced by a heterogeneous network of commercial bank lobbyists, including consultants, lawyers, economists, and bank executives. These lobbyists helped to produce a legal and economic milieu, explicated in Chapters 6 and 8, that enabled Visa and MasterCard to control over 80% of the credit card market and a financial regulatory system that enables the top ten credit card issuers to hold a 90% share of American credit card debt. Finally, the accumulation of $1 trillion of credit card debt was made possible by a long-history, traced in Chapter 7, of targeting the precarious populations that shoulder an unequal proportion of this debt by these financial firms, including people such as Bill Freedman and Agnes Brady. The history of even just one part of our contemporary financial system - the bank credit card infrastructure - helps to demonstrate that the 2007 financial and economic crisis resulted partially from the efforts of American commercial bank officers to alter the social, legal, political, technological, and economic spheres that comprise, in a wider sense, the ‘financial system’ that goes beyond their bank’s day-to-day operations. However, the history of the bank credit card infrastructure is not widely known and most people know very little about their credit card.

1.2 The Bank Credit Card Infrastructure

In the 1990s, Visa’s first CEO Dee Hock liked to hold up a Visa card and ask audiences “how many of you recognize this?” After every hand in the room would go up, he would then ask the crowd, “how many of you can tell me who owns it, where it’s headquartered, how it’s governed,


or where to buy shares?” To Hock’s bemusement, a confused silence always followed this question. Americans used their credit cards 111.1 billion times in 2016, yet many know very little about the card. While the credit card in your wallet, likely emblazoned with a Visa or MasterCard logo, may lead you to believe that Visa or MasterCard issued it to you, they did not.

Visa describes itself as a “global payments technology company working to enable consumers, businesses, banks and governments to use digital currency.” The payment corporations do not issue credit cards, lend credit to consumers, or collect interest from cardholders. Visa and MasterCard are payment intermediaries that provide a platform and payment network to facilitate the process of exchange. The credit card payment process is usually broken down into two basic diagrams. The first picture shows the authorization process:

![Authorization Process Diagram](https://boh.com/small-business/card-processing.asp)


Here we see the cardholder presenting their card to the merchant who then sends a request to their processing bank (here also called an acquirer). Upon receiving the request from the merchant, the acquirer (in green) issues a request to one of the trusted third party intermediaries

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or payment corporations (Visa or MasterCard). The payment company then sends a request to the bank that issued the card to the cardholder. The card issuer will then authorize the purchase, informing the payment company whether the cardholder has sufficient credit to make the purchase. The payment corporation then signals this to the acquirer, who then notifies the merchant. Thanks to the card company’s massive ‘cyber-infrastructure,’ this entire process takes just mere seconds. The first diagram highlights that Visa and MasterCard act as third-party intermediaries that facilitate the process of secure exchange between the cardholder’s and merchant’s banks.

The second diagram highlights the clearing and settlement process:


The clearing and settlement process begins with the merchant who has accepted the cardholder’s payment device. During the authorization process, the merchant sends the transaction data to their processing bank, which then routes that information to one of the payment corporations, which sends this information to the cardholder’s bank. The cardholder’s bank sends payment in the form of digital ‘credit money’ through the payment infrastructure to the merchant’s bank that
then places this money in the merchant’s account. Meanwhile, the cardholder’s bank issues the cardholder a credit card statement that outlines their outstanding balance.

As the second diagram suggests, bank credit card networks deal with both merchants and banks to provide a platform for exchange. The picture reveals that there are two types of financial institutions in the exchange process: issuers and acquirers. The acquirers are responsible for signing up merchants and offering them a contract that allows entry into the payment infrastructure. After a transaction has taken place, the acquirer receives this data, creates a credit in the merchant’s account, and sends this information through the card network. On the other side of the diagram, the issuing bank offers revolving lines of credit to cardholders. In the picture, you can see that the issuer receives transaction data from the card network and creates a debt in the cardholder’s account while transferring funds through the network to the acquirer who created a credit in the merchant’s account. This process is called settling and clearing. The development of this automated payment system helped Visa and MasterCard turn largely ineffective and unprofitable bank credit card operations profitable. However, credit cards existed long before Visa and MasterCard, outlined further in Chapter 2, began their payment operations in the late 1960s.

Department stores and oil and gas companies were the forerunners to the credit card and helped to develop much of the early payment technologies, introducing credit coins and small metallic plates before the Second World War. Before the automation of the payment system, merchants used the Addressograph and Charga-plate to help process credit payments. The Addressograph was a labeling machine that automated the addressing and imprinting process. Like the ‘Charga-plate’ system, merchants placed a metal address plate embossed with a customer’s

42 Credit-money is integral to the credit card payment process. It refers to the electronic money that banks are allowed to lend. Banks in our current ‘fractional reserve banking’ system are allowed to extend more credit in the form of electronic currency than they hold in actual fiat money by simply maintaining a certain fractional equation between liabilities (e.g., deposits and extended credit) and cash reserves, Nigel Dodd, *The Social Life of Money* (Princeton, N.J.: Princeton University Press, 2014), 113; Ole Bjerg, “How Is Bitcoin Money?,” *Theory, Culture & Society* 33, no. 1 (January 1, 2016): 65.


name, city, and address into the Addressograph alongside a charge slip and a card for the customer’s signature. As historian David Stearns explains, during the transaction the merchant would put your charge card or plate and the sales draft into the imprinting device that would imprint the characters embossed on your card onto the draft. Once on the sales draft, the merchant now had the consumer’s card number, card expiration date, and name on each copy of carbon paper. These details merged with the embossed merchant information permanently etched onto the imprinting machine meant that the cashier only had to add the transaction date and purchase amount to the draft and the consumer had only to sign to complete the purchase.

Sales drafts had three layers, which meant that mountains of paper needed to be sorted to ensure proper payment and collection. The top two layers of the sales draft were thin sheets of carbon paper designed so that one copy of the sales draft could go to the consumer and the other to the merchant, and the third layer was an IBM 80-column punch card destined for processing. Since this process was not yet automated, retailers and eventually banks had to either manually sort the drafts, or if the retailer was large enough, send them to their proofing and data-entry departments to be manually punched and proofed. Once sorted, creditors mailed the sales drafts along with an overall credit statement to cardholders with the outstanding balance. These mechanized payment technologies were designed to help the accounting practices of retailers, creating a numbering system that would enable them to keep track of their customers accounts while replacing cumbersome logbooks. This new form of mechanized payment and ‘revolving credit’ was becoming so popular that by 1949, 75% of major retailers had developed a revolving credit system and had formed credit departments.

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46 Ibid.
47 Ibid., 31–32.
49 The increased use of these payment technologies allowed for a much more efficient method of freezing delinquent accounts than the logbook accounting style, which were prone to data entry errors, Hyman, *Debtor Nation*, 117.
50 Ibid., 122.
Within this burgeoning credit environment, Franklin National Bank in New York instituted the first bank credit card program in 1951.\textsuperscript{51} By 1953, Business Week reported that sixty bank credit card plans were known to be in operation. Four years later it was estimated that there were 754,000 cardholders and 11,000 merchants enrolled in bank credit card programs.\textsuperscript{52} However, it was not until 1958-1959 that the larger banks began to invest in credit card programs seriously. For instance, the two biggest banks in America - Bank of America and Chase Manhattan - tasked committees with defining the market, the existing competition, and the potential future profitability of a proprietary bank credit card plan. Only one of these large bank credit card programs survived, as Chase Manhattan executives decided to end their program.

Between 1951-1964, two hundred banks had experimented with bank credit card programs. However, only about half of those bankcard programs remained in operation in the mid-1960s.\textsuperscript{53} Despite massive failures and a cumbersome and costly payment system between the spring of 1965 and summer of 1966, the number of commercial banks that offered bank credit cards more than quadrupled from 70 to close to 300.\textsuperscript{54} According to the Federal Reserve, this increase in the number of banks offering credit cards was due to a change in the orientation of bank management.\textsuperscript{55} Specifically, bank managers across the United States had started to adopt planning techniques and corporate strategies used in other industries, such as long-range planning, modeling, and linear regression analysis. These planning techniques helped spur on large banks like First National City Bank, as illustrated in Chapter 4, to – in their case – re-enter the credit card market and invest in automated payment technologies.

American commercial banks, two years after the widespread adoption of credit card programs, started to assemble and form bank credit card associations. These associations, the forerunners to

\textsuperscript{51} Thomas Russell, \textit{The Economics of Bank Credit Cards} (New York: Praeger, 1975).

\textsuperscript{52} “Marketing: Bankers In on Charge Credit,” \textit{Business Week}, April 1953.


\textsuperscript{54} Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks” (Harvard University, 1967), 21.

\textsuperscript{55} Board of Governors, “Bank Credit Card and Check-Credit Plans: A Federal Reserve System Report” (Federal Reserve, 1968), Box 1120C, LBJ Library.
Visa and MasterCard, introduced an “interchange” system to the bank credit card industry.\(^{56}\) A common ‘Interchange’ system meant that banks had to develop standards for forms, data recording, card design, authorization, and the acceptance or rejection of sales slips. A lawyer representing Chicago’s Midwest Bank Card System in September of 1966 described this system as one where “each bank works independently to issue cards to cardholders and enroll merchants, but understand that cardholders and merchants are interchangeable.”\(^{57}\) Between 1966-1970, 20 nonprofit bankcard associations formed that together had 2700 member banks.

Visa and MasterCard began as associations of commercial banks that were led by large banks such as Bank of America, Wells Fargo, and Marine Midland. These associations were meant to act as trusted intermediaries between participating banks to both facilitate the geographic and financial expansion of the bank credit card and aid the long-term survival of commercial banks in the retail credit market. The associations, to accomplish this objective, allowed commercial banks to joint-finance the design, construction, and maintenance of the concrete installations supporting the automated bank payment system described earlier. While Visa markets its contemporary VisaNet payment infrastructure as a technical marvel, payment systems also enable the widespread distribution of debt that renders the financial conditions of people like Bill Freedman and Agnes Brady precarious.

1.3 Debt, Payment and Infrastructure

The dissertation examines the bank credit card to gain insights into how debt and credit became mass produced, distributed widely amongst precarious populations, and highly concentrated in a select number of large American commercial banks in the United States during the postwar era. As a result, it relies heavily upon and builds on the work of an interdisciplinary collection of research on credit and debt. Existing sociological, anthropological, geographical research has


provided valuable insights into contemporary creditor-debtor relationships highlighting how creditors have increasingly targeted precarious populations living in Europe and the United States for predatory debt relations since the 1970s or in the era of financialization. This work has illustrated both the performative dimension of debt relations as well as given researchers an analytic to understand rising inequality and the preeminence of financial capital in contemporary capitalism.

For instance, anthropologist Miranda Joseph’s work on accounting illuminates the performative aspects of credit and debt relations, as she argues that accounting is both a representational strategy and performative act that establishes an individual’s creditworthiness through writing and reading and provides financiers control over the means of producing liquidity and credit.\(^{58}\) Joseph suggests that this creditor-debtor relationship is an immanent component of contemporary neoliberalism. Geographer Mark Kear explains that one of the primary objectives of neoliberal politics is the “bringing of affordable finance to the risky,” overlooking the production and cultivation of these risky populations by the financial system.\(^{59}\) Kear’s work fits with recent research on credit and risk in contemporary neoliberal society. Sociologist Randy Martin has outlined how creditors managed to delocalize and de-personalize the debtor-creditor relationship through processes of financial securitization and by producing financial instruments such as derivatives.\(^{60}\) Anthropologist Caitlin Zaloom suggests that these financial instruments seek to “neutralize the possibilities of loss from unpredictable events” and are designed to distribute risk amongst investors.\(^{61}\) As Geographer Kate MacLean explains, these financial instruments are supported by “techniques to predict and manage uncertainty statistically” and by an expertise that “allows people to manage uncertainty.”\(^{62}\)

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Sociologist Donncha Marron and STS researcher Martha Poon have provided critical insights into the development of credit scoring techniques produced to help creditors manage the uncertainties of lending. Marron has outlined the how determinations of risk in credit lending transformed in the 1970s away from individual judgment towards the adoption of perceptibly objective risk scoring technologies.63 Poon highlights how operations research methods inspired the formation of these new risk-scoring technologies and helped found the major credit scoring companies and made their way into credit lending practices.64 Chapter 7 of the dissertation contributes to this work by illuminating how American commercial bank managers and executives utilized these new techniques both to validate the ‘democratization’ of credit – or the distribution of credit to risky populations – and to transform risky populations into profitable credit card holders. At a broader level this work on credit, risk, and techniques to manage risk aligns with broader work on risk and the relationship between finance/security/life.

For instance, the work of scholars such as Paul Langley, Emily Gilbert, and Marieke de Goede illustrate how finance – and ultimately debt – are related to logics of security, which re-articulate and repurpose rationalities and techniques of governments.65 Anthropologists Stephen Collier and Andrew Lakoff have outlined how the security logics of the postwar period were influenced by military-inspired operations research and systems analysis methods. According to Collier and Lakoff, these military-inspired methods introduced into the American bureaucracy in the 1960s an understanding of military conflicts that stressed the need to protect and attack systems or infrastructures that were vital to a national economy.66 The argument that finance and security


repurpose and re-articulate the rationalities and techniques of sovereignty, as well as introduce a military-inspired methods into US governance techniques, is particularly important to this dissertation. The dissertation argues that the development of the contemporary bank credit card infrastructure was influenced by the emergence of an ‘environmentality’ within the management practices of American commercial banks. This environmentality, which reflected finance/security/life relations, introduced new rationalities and techniques into bank management practices that stressed the importance of introducing techniques and rationalities to transform risky ventures, practices, and peoples into potentially profitable opportunities. For instance, Chapter 4 of this dissertation illuminates how these statistical techniques made their way into American bank management practices in the 1960s accompanied by a collection of expert consultants hired to help bank executives and managers better manage uncertainty.

At the most abstract level, the dissertation also respects the structural arguments on debt and credit presented by critical scholars such as Mauricio Lazzarato and David Graeber. The latter provides an extensive history of debt relations to craft his central argument that contemporary debt relations have been made possible not only by these new mathematical techniques but also the use of systematic state-sponsored violence. Chapter 7 of the dissertation focuses on the systematic nature of debt relations and how the acceptance of financial violence in the form of usurious credit relations and financial inequality by the Johnson and Nixon administration aided the manufacturing of contemporary debt relations.

Meanwhile, Lazzarato claims that Gilles Deleuze's writings on control societies inspired his work on the debt economy, as Deleuze remarks that within late 20th century society critical scholars must realize that the problem ‘is no longer man (sic) enclosed, but man (sic) in debt.’ Lazzarato, building of Deleuze’s insights, argues that the debt economy is the core of contemporary neoliberalism. Lazzarato suggests that “In the transition from Fordism to neoliberalism, the state retroceded the right of coinage and money was disentangled from gold. Under the current debt economy regime, these are the new presuppositions and conditions of

production.” In particular, the debt economy reflected the dematerialization of money, essentially rendering money into debt, which – echoing Miranda Joseph’s argument - made it a “phenomenon dependent upon writing operations.”

Lazzarato building on the works of Nietzsche and Marx attempts to theorize debt as a social process and suggests that “debt represents an economic relationship inseparable from the production of the debtor subject and his "morality"… the modern notion of economy covers both economic production and the production of subjectivity.” He traces the creditor-debtor relationship back to the early history of Christianity and the emergence of capitalism, suggesting that this relationship has always constituted elements of indeterminacy and unpredictability. However, Lazzarato also argues that under capitalism the temporal framework of debt became the infinite cycling of the Marxian M-C-M formula, noting “under capitalism, debt rests on and unleashes an infinite process.” Put together, Lazzarato suggests that to understand the power of debt requires grasping debt through “considerations of subjectivity and temporality, and also as an infinite process.” Geographer Paul Langley explains that for Lazzarato “the intensification of socio-economic insecurity that accompanies the current pre-eminence of financial markets is therefore experienced not merely as sudden and periodic – wrought by the inevitable and occasional outbreak of crises – but as an ever-present, structural condition of life under present-day capitalism.” The structural conditions of contemporary society, for Lazzarato, means that lived experience for most people is characterized by a seemingly never-ending financial insecurity.

69 Ibid., 1044.
70 Ibid., 1043.
73 Ibid., 1042.
74 Ibid.
Debt understood as an infinite process relates directly to the credit card, as Lazzarato argues that the “credit card is the simplest way to transform its owner into a permanent debtor, an "indebted man" for life.” This insight on the credit card is particularly useful in understanding the arguments presented in Chapter 4, which outline how commercial banks came to recognize the future profitability of devices that could potentially render consumers into a state of permanent indebtedness and how these banks hired managers prepared to deal with this potential permanent indebtedness of cardholders. It is also relevant to understanding Chapter 7, which outlines how precarious populations became entrenched into states of permanent indebtedness and financial precarity thanks to a transformation in bank management practices and the construction of a bank credit card infrastructure. However, the dissertation does not entirely agree with Lazzarato’s historical timeline for the emergence of the debt economy.

According to Lazzarato, the critical transition point in the emergence of the debt economy was the ‘shock of 1971’ and the end of the gold standard, which he argues constituted the birth of neoliberalism and the “source of all privatizations.” Lazzarato argues that with the abandonment of the gold standard money became dematerialized ‘credit money’ with private banks issuing most of the money in circulation. In many ways, the dematerialization of money coincided with the emergence of the accounting systems of early 20th-century clearing houses and the development of electronic fund transfer systems, which by the early 1970s had already transformed most of the money in circulation into ‘bytes.’ As a result, the dissertation argues that the pre-conditions to the political, legal, social, technological, and economic transformations in the United States of the 1970s are critically important to understanding how debt became manufactured, distributed to financially precarious populations, and highly concentrated in the largest commercial banks. Given the importance of understanding the genealogy of payment, and in this case the bank credit card infrastructure, to the history of what Lazzarato refers to as the debt economy, this dissertation is inspired by anthropologist Bill Maurer’s argument that “money

78 Ibid.
is not just debt and credit… it is also a public infrastructure for value transfer.”\textsuperscript{79} As Maurer and other researchers demonstrate, there is more to payment than technology and debt. Existing research on payment and infrastructures serves as a critical foundation for this dissertation, which aims to contribute to this work by including an historical investigation of the management practices that guided the creation, growth, and development of the bank credit card infrastructure.

Visa and MasterCard facilitate ‘payment,’ which is the transfer of value. However, ‘payment,’ as the remainder of the dissertation illustrates, also acts to create or reinforce values. Historian Louis Hyman and Media Studies professor Lana Swartz illustrate in their work how payment and debt produce and are attached to specific racial and gender values. In Swartz’s work, she presents evidence that payment is often attach to a particular masculine ethos, highlighting how the Diner’s Club card became symbolic of elite status and masculinity.\textsuperscript{80} Meanwhile, Hyman suggests that debt has long been feminized in American culture, pointing to advertisements that targeted middle-class white women consumers and other advertisements that correlated debt held by men with a lack of virility.\textsuperscript{81} This dissertation highlights how the payment corporations work to promote and reinforce these American social values, especially social values attached to debt, race, and gender. For instance, the bank credit card acted as a means for American commercial banks to target their credit card offerings to groups that historically had difficulty accessing affordable credit, which acted to reinforce the postwar color- and gender-blind meritocratic social values rather than challenge these systematic inequities. The payment corporations, as outlined in Chapter 5, also promote certain economic and political values in their attempts to create business and capture payment transactions made outside the United States. For example, in their efforts to expand the payment network internationally, Visa promotes their VisaNet system as a mechanism for national governments to move their populations from an informal to the formal economy, and as an infrastructure to help connect national economies to the global

\textsuperscript{79} Bill Maurer, “Late to the Party: Debt and Data,” \textit{Social Anthropology} 20, no. 4 (November 1, 2012): 480.


economy. In that sense, ‘payment’ and the companies that facilitate the transfer of value, also
work to produce, promote, or reinforce values.

Swartz and Maurer highlight this multi-dimensionality of ‘payment,’ suggesting that payment
encompasses much more than the exchange of debt and credit. Exchange often overshadows
payment when studying contemporary capitalism and finance, which overlooks the fact that there
is more to transactions than credit, debt, and value creation. Maurer defines ‘payment’ as the
scaffolding, portals, rails, or plumbing for the transference and creation of value.82 In that sense,
payment is the often-overlooked dash found in Marx’s famous formula: M – C – M’.83 As
Maurer explains,

Payment…is more a matter of enaction than transaction…the idiom is not of exchange but of the
toll that permits the exchange to take place via the rails or pipes that connect transacting parties. I
built the pipes; you pay the toll if you want to exchange with another party.84

The payment industry is composed of private networks such as Visa and MasterCard that
facilitate e-commerce and the transfer of digital currency for a fee. The payment companies,
much like other digital platforms, derive their revenues from these fees.85 These infrastructures
create a market between the issuing bank that is selling access to a cardholder’s account and
merchants who buy access to this account through an acquiring bank. Presented with a price set
by the platform provider that the merchant must pay for access to their cardholder’s account, the
card network’s actual customer is the card-issuing bank who receives most of this fee.86

The price charged for account access is the interchange fee. The interchange fee is one of the
three tolls in the credit card infrastructure: discount, processing/assessment, and interchange.

82 Maurer, “Payment,” 15.
83 Ibid., 27.
84 Bill Maurer, “Late to the Party: Debt and Data,” Social Anthropology 20, no. 4 (November 1, 2012):
476.
85 The founding engineer of Google Wallet, Jonathan Wall, described the payment industry as a system
built entirely on “charging small, infinitesimal tolls” – a privately operated information superhighway,
86 Maurer, “Payment,” 15.
While the acquirer receives a discount fee from the merchant - which is usually a fixed percentage of the transaction (e.g. 3% fee, which would be $3.00 from a $100 purchase) - for facilitating the ‘payment’ process, most of the toll is the interchange fee paid to card issuers. The card networks also charge a small processing/assessment fee for coordinating the entire process.

By serving as the facilitator of digital currency transfers, the credit card infrastructures generate their profits from these fees. In other words, digital currency does not just circulate; trusted third-party intermediaries such as Visa and MasterCard make its circulation possible. These minuscule fees add up quickly, as Visa reported a global profit of close to $2 billion in 2016 – this is even more impressive when you consider that these profits do not include the revenues generated by the card-issuing banks from interest charges and fees.\(^{87}\) While profit is the desired outcome of the payment infrastructure, it also provides very little details on the types of infrastructural arrangements that make the production of this profit possible.

Swartz and Maurer, like other researchers interested in payment, highlight that there is more to explore than just the business models and revenue streams of payment companies. They work to exhibit the less visible elements of payment infrastructures by “pulling these things apart, to look at their inner workings.”\(^{88}\) For instance, they note that credit card networks depend on “payment processors, point-of-sale devices, independent sales organizations, manufacturers of plastic cards, “J-hook” displays from which gift cards are suspended in grocery stores, wireless networking services, and chip and device manufacturers.”\(^{89}\) Also, Swartz and Maurer urge their readers to consider that payment systems rely on the services of other technology corporations, “Western Union “rides the rails” of First Data; PayPal uses the federally mandated Automated Clearing House.”\(^{90}\) Payment, as these authors illuminate, is complex.

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\(^{88}\) Maurer et al., *Paid*.

\(^{89}\) Ibid.

\(^{90}\) Ibid.
The work of the Future of Money Research Collaborative, an interdisciplinary research collective with members such as Maurer and Swartz, further underlines the political, cultural, and social elements of payment, illustrating that payment does not exist solely in a financial and legal sphere.\(^91\) Swartz has detailed how ‘payment’ serves as a means to perform and determine identity, producing ‘transactional identities,’ which represent predominantly masculinized networks of relations between people, institutions, and discourses.\(^92\) The Future of Money Research Collaborative also claims that new payment technologies are “invested in a certain political vision” and the introduction of new visions of ‘the social.’\(^93\) The work of this research collective highlights the importance of unearthing the infrastructure of the payment system, and the socio-technical relations that constitute these systems and the relations these systems foster.

According to Maurer and Swartz, by examining this machinery and infrastructure, we can see “all the different players in a system described by participants as an ‘ecology,’” that “provides new insight into what we shorthand as ‘the economy.’”\(^94\) The payment ‘ecosystem’ remains an important unit of analysis when referencing payment infrastructures and platforms.\(^95\) However, the concept itself is often left unquestioned. In payment parlance, an ‘ecosystem’ does not refer to the ‘natural’ or strictly material elements that go into the payment infrastructure. Instead, the payment ‘ecosystem’ refers to the political, social, legal, economic and technical components of the payment infrastructure.\(^96\) As a result, a history of the bank credit card infrastructure requires an understanding of the concept of infrastructure that captures this ‘ecology.’ This dissertation contributes to this work on payment by connecting this conceptualization of the payment ‘ecosystem’ to postwar management strategies, practices, and philosophies that made their way into banking in the 1960s. It explains how these bank management practices, focused on the


\(^92\) Swartz, “Gendered Transactions,” 139.


\(^94\) Maurer et al., *Paid*.


\(^96\) Ibid.
banking environment or ecosystem, were integral to the creation, growth, and development of our contemporary bank credit card infrastructure.

Much like payment, the dissertation builds on existing work that examines the concept of infrastructure. ‘Infrastructure,’ as a term, constitutes not only the complex technical arrangements of materials but also the relations between these materials. Anthropologist Brian Larkin suggests that infrastructures are “objects that create the grounds on which other objects operate…” and “their particular ontology lies in the fact that they are things and also the relation between things.”

Infrastructure studies researchers demonstrate that highly technical utilities (e.g., roads, sewer, payment, and telecommunication systems) are ubiquitous, imperceptible, and affectively charged systems. Across the field, infrastructure studies researchers reveal how technical systems are embedded in social, economic, cultural, and political processes, stressing that infrastructures are vastly more complex and political than is commonly understood. This research once again highlights that bank credit card infrastructure must be understood as a combination of economic, legal, technological, social, and political spheres.

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As the confused silence of Hock’s audience demonstrates, the combination of these infrastructural commitments translates into the effect that most users do not recognize the complexity of large-scale payment infrastructures. This is part of how the technology works, where users are invited to just see the card as a kind of payment form akin to money. Despite not recognizing the complexity of the infrastructure, most users have such a strong attachment and reliance on these ubiquitous socio-technical arrangements that it becomes difficult to envision our collective and individual lives functioning without these hybrid systems. In many cases, as in the bank credit card, a person’s survival seems dependent upon contemporary ‘cyber-infrastructures’ that span the globe and facilitate modern living.

Historian of science Paul Edwards defines ‘cyber-infrastructure,’ such as the one operated by Visa and MasterCard, as the “set of organizational practices, technical infrastructure and social norms that collectively provide for the smooth operation of…work at a distance.” In the case of the cyber-infrastructure of the credit card companies, they strive to enable their users to transact with digital currency almost anywhere in the world, and far away from their banks or the payment headquarters that facilitate the transaction. According to Visa Inc.’s marketing material, its ‘cyber-infrastructure’ processes over 150 million transactions every day, 24,000 transactions every second, allowing for over $5 trillion a year in processed transactions. The credit card infrastructure developed out of the specificities of the US financial system but has transformed into a genuinely multi-national system capable of authorizing transactions in over 175 different currencies. This authorization process takes place over the millions of miles of fiber-optic cables that connect Visa’s 1,600 network locations. The capacity for infrastructures to appear for some users to seamlessly act a distance is a core element in their ubiquity, acceptance, and apparent naturalness. Meanwhile, for people such as Bill Freedman and Agnes Brady who are in debt and made vulnerable by these payment systems, they are much more attuned to their problems - even if they do not necessarily know precisely how these systems work.

101 “VisaNet: The Technology Behind Visa.”
102 Ibid.
The vast network of cables that allows for this flow of personal and financial data fosters a vision of the payment corporations as de-territorialized, de-materialized, and decentralized global brands acting as a platform for consumers and merchants. As communications professor Nicole Starosielski points out, this perception of de-territorialized, decentralized, and seemingly immaterial systems mask the social, environmental, and financial investments that are required to maintain, construct, and design the cables themselves, let alone the vast infrastructures they support.103

For those in charge of payment corporations, the concealment of their infrastructure is one of the highest objectives. As Dee Hock once noted, “In Visa, we tried to create an invisible organization and keep it that way. It’s the results, not the structure or management that should be

103 Nicole Starosielski, The Undersea Network, 2015.
apparent.” Hock’s statement emphasizes that the payment system has been designed and operates in a way to camouflage its technical, organizational and management structure to users. The payment corporations’ ambition to hide their structural and managerial arrangements are clear to researchers who are denied access to corporate archives.

This dissertation, to unearth the multi-dimensional infrastructure of the bank credit card, relied on banking periodicals, regulatory agency reports, data and surveys, court documents, newspaper articles, and academic research conducted during the bank credit card’s formative years. It also drew from several archives including the papers of Wright Patman, Walter Wriston, Charls E. Walker, Phillip L. Zweig, and Arthur Burns, as well as documents from the LBJ library, Nixon Library, and the National Archives at College Park. These sources provide ample evidence that this perception of a de-territorialized, decentralized, and seemingly immaterial infrastructure conceals the management practices, organizational philosophies, strategies, and politics that went into creating and sustaining the card’s ubiquity. The dissertation explains how there is more to the bank credit card’s infrastructure than the technological components and capabilities marketed by the payment corporations. The payment infrastructure is composed of a socio-technical assemblage of interrelated social, legal, economic, political, and technological spheres. These same spheres support the US financial system and set the conditions for financial and economic crises. Combined, these spheres make-up the banking environment and require an environmentality.

1.4 Environmentality

When considering the hybridity of the crisis – the human and technical elements – it is apparent that the 2007-2008 financial crisis was not solely market, management, or policy driven, but the result of an assemblage of socio-technical forces that conspired to alter the spheres supporting the US financial system. As this dissertation details, the socio-technical spheres supporting the mass transference of wealth across the globe were just as much shaped by technological innovations as they were by governance strategies aimed at pre-emptively reshaping the regulatory, social, legal, technological and economic domains supporting this system.

The dissertation claims that these governance strategies reflect what Michel Foucault and Brian Massumi refer to as an ‘environmentality.’ Michel Foucault described in his lectures on *The Birth of Biopolitics* that governmental forms of reason had transformed after World War II towards an ‘environmentality.’ Foucault claimed that American neoliberal economists advocated the implementation of ‘environmental technologies’ to produce a society that allowed for the fragile competitive mechanisms of a market economy to function properly. He pointed to American drug enforcement policies as an example of a neoliberal policy, program, and initiative that sought to identify and modify variables within social, political, legal and natural spheres to provide a framework that allowed market freedoms but also enabled individuals to modify their behaviors.

This dissertation describes how this environmentality was not just a set of calculative rationalities or political imaginaries. In the case of the bank credit card infrastructure, environmentality also represented a purposeful project undertaken by American commercial bank officers and credit card company executives to alter the political, legal, social, technological, and economic spheres supporting the US, and the world’s, financial system. These interrelated domains that make-up the bank credit card infrastructure represent the banking ‘environment.’ The banking environment, therefore, does not refer to the natural environment but rather another sense of “environment” that emerged in business thinking, that defined the environment as the interrelated material-semiotic spheres that comprise a bank’s and payment corporation’s political, economic, legal, technological, and social domains.

In the mid-1960s, Harvard Business School Professor Francis Aguilar first defined the ‘business environment.’ According to Aguilar, American managers and executives had started to collect and examine information on their “industry as a whole, and thence to the aggregative and general

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107 Ibid., 257.
economic technological, political, and social spheres.” These executives were ‘scanning’ the business environment, or these distinct spheres not under the direct ownership or control of their firm, to devise corporate strategies aimed at being responsive to the “risks and opportunities confronting the company in its external environment.” Underlying this strategic process were complex power relations, or the struggle by managers and executives to “no longer simply cope with conditions” but to learn to be adaptive and flexible within these spheres to secure the future of their firm through the long-term production of profit. As this dissertation illustrates, the emergence of this type of corporate ‘environmental’ analysis coincided with the rapid development of the bank credit card infrastructure.

Before the mid-1960s, the bank credit card was a largely unprofitable banking service, with large banks such as Chase Manhattan losing millions of dollars on their credit card operations. However, by the mid-1960s, corporate strategies that stressed the need to not simply react to changing external conditions but to act to identify and alter the spheres that comprised the banking industry made their way into bank management practices. Commercial bankers, armed with these purposeful and future-oriented strategies, entered or re-entered their banks into the bank credit card market in droves and formed the bank credit card associations that would become Visa and MasterCard. The formation and organizational arrangement of these bank credit card associations, inspired by this environmentality, helped construct the contemporary bank credit card infrastructure.

Following this line of inquiry, this dissertation understands ‘infrastructures’ as assemblies of both technical and social elements aimed at producing legal, political, social, economic, and technological spheres that seek to enable market mechanisms to function unimpeded. The third chapter provides a genealogy of the concept of ‘infrastructure’ to highlight how it initially represented an organizational arrangement instituted by NATO with its ‘Common Infrastructure Program’ in 1949. The chapter highlights that NATO’s deployment of ‘infrastructure’ referred to

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109 Ibid., 4.
110 Ibid., 12.
something different than ‘public works.’ Instead, it named planning, budgeting, financing and forecasting practices aimed at building the concrete systems that acted to modify the socio-technical spheres of Allied NATO nations. From its military origins, the chapter shows how the term became taken up within foreign development projects and came to represent the installation of American inspired technical, social, legal, economic and financial practices aimed predominantly at global economic development. The postwar conceptualization of ‘infrastructure’ represented the future-oriented planning and construction of durable, yet flexible, socio-technical spheres amenable to private capital investment and wealth creation. In that sense, ‘infrastructure’ reflected the ‘environmentality’ of the postwar period.

The dissertation claims that environmentality, as exhibited by bank officers, guided the creation, maintenance and growth of the bank credit card infrastructure and the manufacturing of debt and a US banking environment or system amenable to systemic failure and financial inequalities. The alteration of these spheres external to day-to-day bank operations and not under the direct control or ownership of commercial banks enabled the rapid acceleration of the circulation of capital, concentrated liabilities in the largest firms, and incited an aggressive profit orientation amongst bank management, all while increasing financial and economic inequality and indebtedness. These were deliberate alterations that reflect a postwar environmentality that worked as intended, maybe even better than intended, to alter the many domains that constitute the US financial system, and produced a highly profitable contemporary bank credit card infrastructure.

1.5 Methodology and Chapter Breakdown

The dissertation provides both a genealogy and macro-environmental analysis of the history of bank credit card infrastructure. It works to excavate the infrastructure of the bank credit card and demonstrate how it has exemplified a change in the banking environment in the United States - a change that helped set the conditions for contemporary financial crises. Each chapter takes a component of the infrastructure (e.g., social, political, technical, economic and legal) and details how bank officers worked to plan, build, shape, and expand the bank credit card infrastructure into the ubiquitous debt-harvesting payment system it is today.

Chapter 2 provides a brief description of the early history of the bank credit card. It describes the early socio-technical arrangement that gave rise to the bank credit card, including the regulations, payment technologies, and management practices, while also highlighting the race
and gender based prejudices that guided these early operations. The second chapter illustrates how these early operations were mostly unprofitable and did not exhibit many, if any, of the characteristics that would come to define the bank credit card infrastructure. It is meant to illustrate the era before an environmentality found its way into bank management practices.

The third chapter, to setup the remainder of the dissertation, delivers a genealogy of the concept of infrastructure. The chapter, starting with NATO’s Common Infrastructure Program in 1949, connects infrastructure to environmentality. Introduced by NATO in 1949, NATO’s Common Infrastructure Program did more than just provide a name, ‘infrastructure,’ to the concrete ‘lifelines’ jointly-financed and constructed by Allied nations. The ‘infrastructure’ program was as much about management and organization, as it was the construction of concrete military installations. At its core, it named a budgeting, coordinating and forecasting long-range planning program that was inextricably linked to security and finance. These practices were implemented to help NATO meet the two objectives of the ‘infrastructure’ program, security and economic growth. The chapter also details how this conceptualization of ‘infrastructure’ came to serve as an important concept in postwar development and modernization efforts. US modernization efforts sought to not only build material assemblages or physical infrastructure, but also the cultural, social, political, economic, and legal frameworks, or social infrastructure, believed necessary to aid the postwar modernization of ‘underdeveloped’ nations. The chapter explains how this postwar conceptualization of ‘infrastructure’ reflects the governance strategies, or environmentality, that helped the development, construction, organizational arrangement, and set the contemporary objectives of the payment corporations.

The fourth chapter details how the widespread adoption of credit card plans by commercial banks coincided with the introduction of military-inspired long-term statistical planning practices in the mid-1960s. Long-term planners, like infrastructure and modernization planners, stressed the importance of macro-environmental analysis and pre-emptive action to confront present, future, and latent problems and helped commercial banks parse their corporations’ environment into its social, legal, political, economic, and technological spheres. These planners helped commercial bankers recognize the subtle impact that these spheres had on the long-term survival of a bank, while also highlighting the economic opportunities of consumer credit. As the chapter illustrates, planners often instructed commercial banks to invest in credit cards, automation technologies, and integrate computers into their banking practices.
Chapter 5 describes how with an increased awareness of the technological elements of their environment, American commercial banks set out to form joint-venture bank credit card associations that had ‘environmental’ organizational philosophies (e.g., Chaord). It specifies how the introduction of electronic fund transfers had bank credit card associations vying to construct the technological payment authorization, clearing, and settlement systems necessary to extend the geographic reach of their payment networks. The chapter explains how the logic of ‘infrastructure’ permeated throughout the studies that led to the construction of the concrete installations and systems that supported the bankcard infrastructure. It also illustrates how these associations and their members lobbied to maintain the private nature of their operations, arguing against the Federal Reserve operating as the sole intermediary for digital currency.

The sixth chapter highlights how while bankcard associations set out to construct these credit card platforms, officers at their member banks utilized Chicago School inspired understandings of the economy to lobby for the ‘deregulation’ of the US financial system. The chapter describes how bank lobbyists during the inflationary crises of the 1960s and 1970s used this understanding of the economy to parse this political crisis into technical regulatory variables (e.g., regulation Q, reserve requirements, taxation, interest rate restrictions). The translations of the US economy offered by consultants, lawyers, economists and bank executives working primarily for the largest commercial banks, helped to reconfigure the US financial system. These lobbyists worked to expand commercial bank powers and reduce regulatory constraints, producing not only higher profits for the largest banks but also removing consumer safeguards such as usury rates and interest rate ceilings.

During the 1970s, the attempts to remove these safeguards coincided with the further legitimation of consumer debt. The seventh chapter clarifies how financially vulnerable and precarious populations were not only economically harmed by regulatory changes but also became the target of commercial bank lending practices. It details how the targeting of vulnerable populations was central to the long-term profitability and survival of the bank credit card infrastructure. As the Chapter 7 illuminates, American commercial banks in the late 1960s framed financial technologies, such as the bank credit card, as tools to help with the democratization of credit and as a solution to the lending discrimination experienced by non-white populations. In reality, by framing the racialized conflicts and anti-racist protests as an issue of ‘credit access’ as opposed to an issue of structural inequality, commercial banks were
allowed to introduce financial technologies that were inherently predatory. The chapter explains how the bank credit card infrastructure, rather than eliminating lending discrimination, has in many ways acted to further entrench institutional and systemic lending discrimination.

The eighth chapter argues that as the payment corporations grew within this increasingly deregulated regulatory regime, they acted continuously to protect, maintain, and grow their share of the credit card market for their members. The chapter traces the operating regulations and policies of the payment corporations, highlighting how both reflect this effort to cultivate a legal sphere amenable to the survival of the payment corporations, and also reflect changes to the anti-trust philosophy guiding the American legal sphere. These governance strategies aimed at minimizing competition emerged alongside the rise of the Chicago School anti-trust philosophy and the Reagan administration’s liberalization of anti-trust law through the appointment of a series of conservative judges. The chapter outlines how the combination of this new legal environment and these governance strategies geared towards reducing competition enabled the growth and survival of the payment corporations and helped to create a payment environment monopolized by Visa and MasterCard.

By parsing the bank credit card infrastructure into its social, economic, technological, political, and legal spheres, it is possible to see the banking ‘environment’ that set the conditions for the growth of this infrastructure and future crises. It is also possible to outline the environmentality, or governance strategies guiding bank management practices, that inspired the creation of the bank credit card associations, and how environmentality influenced the design, construction, maintenance, and growth of their infrastructures. In the end, the dissertation highlights how strategies employed by bank and payment corporation officers aimed primarily at pre-emptively acting on the interrelated spheres supporting the US financial system helped to cultivate a banking environment amenable to incredible profit accumulation, inequality, and crises. Credit cards are more than just pieces of plastic; they are credit instruments needed to survive and belong in a financial environment where one has to pay to eat, be sheltered, and access health care. This reality remains heightened if not unchanged. The financial environment of contemporary America is as simple as it is stark, many cannot live without debt. Most cannot live outside the environment produced in part by the infrastructure of the bank credit card.
Chapter 2
Unprofitable Bank Credit Cards

2 Before Visa and MasterCard

Visa Inc. boasts that it operates the world’s most extensive electronic payment network, which it refers to as VisaNet. VisaNet, running on fiber optic cables that traverse the globe, enables Visa to convert 175 different currencies and process 24,000 transaction messages a second. However, Visa describes VisaNet as more than just a proprietary transaction-processing infrastructure. Visa claims that VisaNet enables the payment corporation to support “economic empowerment to people, businesses, banks, and governments in 200 countries and territories.” Visa ties its infrastructure to economic development and modernization.

What is VisaNet?
VisaNet supports economic empowerment to people, businesses, banks, and governments in 200 countries and territories.

VisaNet: Connecting the world through electronic payments


Visa claims that VisaNet is essential to support a country’s security and economic growth.

111 “VisaNet: The Technology Behind Visa,” 2. 2.
112 Ibid., 1.
According to Visa, the centralized network of VisaNet “offers visibility into every transaction,” and its ‘Advanced Authorization’ service offers a high level of security and fraud protection. Visa argues that these security features make it a trusted payment infrastructure, which helps “to bring people out of the informal economy, thus increasing a nation’s economic activity while assisting with proper administration and collection of taxes.” Visa also promotes VisaNet as a support for the economic growth of countries and territories, as it “powers domestic processing” and helps “link those domestic economies into the larger global economy.”

As Chapter 3 details, Visa’s marketing materials and understanding of infrastructure relate to a longer history of “infrastructure” as a concept. This longer history reveals infrastructure’s relationship to the environmentality of the postwar era. However, this chapter outlines the early history of the card to both demonstrate how the postwar conceptualization of infrastructure did not inform early bank credit card operations and how these early operations represented a set of problems amenable to ‘infrastructure’ solutions. The chapter sets the table for the remaining dissertation, detailing the early problems of bank credit card operations and how the adoption of an infrastructural arrangement helped transform bank credit card operations from unprofitable plastic cards into a profitable global payment infrastructure.

2.1 Before the Bank Credit Card Infrastructure

Before VisaNet, clearinghouses served as the primary mechanisms for the transference of money between banks. Private American bank clearinghouses started in the 19th century as an efficient way to process checks, offering a centralized location where financial firms could transfer or receive funds. Clearinghouses were useful because checks are not actual representations of value, but are tentative claims on value. For the recipient of a check to receive the funds

113 Ibid., 7.
114 Ibid., 5.
115 Ibid., 4.
117 Stearns, Electronic Value Exchange, 2.
represented on the check, the check must be cleared and settled by a financial institution.\textsuperscript{118} It was a complicated logistical process that was made easier by the formation of centralized clearinghouses, where banks coordinated the efficient transference of funds between themselves.

The private clearinghouse system provided banks with a clearing and settlement arrangement that granted an element of control over the US banking system. The clearinghouse also provided a revenue source for participating banks. Bankers considered the ‘settlement and clearing’ charges they levied to their customers as a legitimate source of bank revenue.\textsuperscript{119} For that reason, when the Federal Reserve Bank of New York opened a centralized check clearinghouse on July 15, 1916, American commercial bankers were not happy.\textsuperscript{120}

The Federal Reserve clearinghouse was a by-product of the Federal Reserve Act of 1913, which directed the Federal Reserve to provide an efficient payment mechanism for the public good. Part of the good it wanted to provide the public was the elimination of clearinghouse fees (i.e. service and discount charges).\textsuperscript{121} The centralization of the clearance process in the hands of the Federal Reserve removed the charges banks levied on the face value of checks and cut the revenue stream for these banks and their clearinghouses. Commercial bankers, facing the possibility of losing millions in profits, argued that the discount and service charges they levied against their customers were within their rights and were a long-standing custom of fund transfers between communities. These arguments illustrate that payment tolls and fees existed long before the development of the bank credit card infrastructure. They also highlight that the debates over whether payment processing should be provided as a public good or handled by private firms commenced much earlier than the payment privatization discussions of the 1970s.

\textsuperscript{118} Clearing refers to the process of transferring funds, and check settlement refers to the balancing of accounts between parties.


\textsuperscript{120} Ibid.

\textsuperscript{121} Ibid.
The New York Times reported that the issue over rendering these payment services public was so heated that bankers were even going so far as to charge the Federal Government with violating their constitutional rights.\textsuperscript{122} Bankers claimed that the Federal Reserve's centralized clearinghouse deprived them of their property. Despite these contestations, by November 1916, 15,000 banks used the centralized clearinghouse to process over 200,000 items daily.\textsuperscript{123} The stark reality of the new clearinghouse was that it was the cheapest way for banks to process checks, so most opted into joining the voluntary system. As one Federal Reserve official noted at the time, “the economical working of this system is apparent, and its potential usefulness to the country is manifest.”\textsuperscript{124}

This move towards a more centralized and less privatized clearinghouse system fits with the wider anti-monopoly and ‘fair competition’ public sentiments in US society in the 1920s and 1930s.\textsuperscript{125} For instance, before the Great Depression, Congress passed the McFadden act (1927) which prohibited interstate bank branching and many states implemented unit banking laws that restricted banks to a single banking office. These restrictions on banking would soon be joined by wide ranging banking regulations following the stock market crash in 1929 that would shape the banking environment that gave rise to the bank credit card.

### 2.2 The New Regulatory Environment

The Bank Acts of 1933 and 1935 included provisions such as the decoupling of commercial banking from investment banking, revised branching restrictions, federal deposit insurance, interest rate ceilings on deposits, and provided the Federal Reserve with authority to adjust

\textsuperscript{122} Ibid.


\textsuperscript{124} Ibid.

These provisions placed regulatory limits on bank powers. According to future Citibank President George Moore, who attended the markup sessions for the bank acts on behalf of his bank, the most significant part of the banking legislation passed was Regulation Q. Regulation Q prohibited the payment of interest on demand deposits and gave authority to the Federal Reserve to set the interest rate for what banks could pay on time deposits.

Regulation Q had an immense impact on the business of banking. Banks are financial intermediaries that channel funds from depositors to borrowers. They offer to pay depositors interest on their savings to attract funds to their bank. The money a bank can attract is leant out to borrowers, who pay for that money through interest charges and fees. Banks made money by keeping an interest rate differential between the amount of interest they paid depositors and the amount they charged borrowers. Regulation Q was essentially an imposition of a price control on commercial banks and was introduced to protect smaller banks and reduce excessive competition amongst commercial banks for deposits. Combined with branch banking restrictions, these new regulations limited the geographic reach and lending capabilities of commercial banks. These limitations played a pivotal role in shaping the development of the bank credit card infrastructure, as bankers during the formative years of the bank credit card infrastructure needed to both work around and attempt to alter these restrictions placed on their operations.

These banking acts also coincided with the introduction of New Deal policies that sought to use regulatory controls and policy innovations to create new markets for home mortgages. These

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127 Ibid.
129 There are essentially two kinds of bank deposit. A time deposit is a deposit in a bank account that cannot be withdrawn before a set date or for which notice of withdrawal is required. In contrast, a demand deposit represents funds held in an account that can be withdrawn at any time (savings accounts, checking accounts, and money market accounts represent different kinds of demand deposit accounts).
130 Clifton Luttrell, “The Hunt Commission Report - An Economic View,” April 14, 1972, RG 56 Box 12, National Archives at College Park, College Park, MD.
131 Vietor, *Contrived Competition*, 250.
policies reflected the Roosevelt administration’s prioritizing of providing affordable housing to people living in the United States.\textsuperscript{132} To ensure the flow of funds into the housing market and spur the development of American suburbia, legislators provided savings and loan associations or thrifts with an interest rate ceiling differential over commercial banks. The interest rate ceiling differential, combined with different tax laws and exemptions from deposit insurance, was meant to protect thrifts from commercial bank competition, and promote the housing objectives central to New Deal policy. In return for these regulatory protections, thrift institutions could not direct their deposits towards investments outside of mortgage lending. These restrictions limited consumer lending in non-mortgage areas from financial firms to commercial banks, which meant that thrifts were not legally permitted to offer installment or other forms of consumer credit. Due to these regulations, commercial bank competition in the early years of the credit card market did not come from other financial institutions, instead it arose primarily from hotels, oil and gas companies, private credit card businesses, and department stores. The regulations enabled commercial banks to be the only deposit accepting institutions to offer credit cards in the 1960s and 1970s.

These new government policy initiatives helped to fuel an immense growth in consumer lending. However, American commercial banks were seemingly not prepared to deal with this rise in consumer lending. As James Moffett chief of the Federal Housing Project noted: "the banks, generally, are unfamiliar with the personal credit instalment payment plan and we are required to carry on an extensive education program."\textsuperscript{133} Individual instalment payment plans were not banking innovations, but rather were lending practices used by retailers that needed to be incorporated into banking. Though, once instalment payment plans were introduced into banking, banks began to create larger and larger consumer credit departments in an attempt to capitalize on regulatory changes. These departments aimed to build on the positive experiences

\textsuperscript{132} Hyman, \textit{Debtor Nation}, 47.

of lending under the new government initiated home loan program and helped increase the presence of consumer lending in commercial bank operations.\textsuperscript{134}

However, shortly after banks initiated personal credit payment plans, the Roosevelt administration decided to introduce credit restrictions. As one banker noted: "many banks had just awakened to the opportunities in handling consumer credit...when the war and Regulation W came along to restrict production and sales."\textsuperscript{135} Regulation W had two objectives. The first was to reduce demand for the materials needed for national defense. The second was to pre-emptively slow down the inflationary tendencies typically found in periods of war.\textsuperscript{136} Regulatory controls were enacted based on the belief that the Federal Reserve, with its technocratic capacity to collect and interpret statistics on the performance of the US macro-economy, could prevent the inflationary pressures that would result from a World War. As historian Louis Hyman explains, “with Regulation W, Roosevelt authorized the Federal Reserve… to directly regulate how much consumers could borrow and the terms under which this borrowing could occur.”\textsuperscript{137} The translation of the economy proposed by the Roosevelt administration was that if the Federal Reserve could regulate instalment credit access, this would help lessen consumer demand and avoid inflation.

The Roosevelt administration’s focus on regulating consumer credit was rationalized as the most feasible option because consumer credit was still relatively marginal, meaning that any reductions or increases would not result in an economic crisis. Instalment lending was also unevenly distributed amongst Americans. It was working class Americans who were most predisposed to utilizing instalment loans to purchase consumer durables such as an automobile or

\textsuperscript{134} Hyman, \textit{Debtor Nation}, 86.
\textsuperscript{137} Hyman, \textit{Debtor Nation}, 98.
refrigerator. Regulation W with its mandatory limits on down payments was in effect a way to curb the spending habits of the working class – a class that had benefitted greatly from the increases in defense spending.

Enacted on September 1st, 1941, Regulation W set minimum standards for down payments and maximum limits on contract lengths for all installment loans less than $1000. Shortly after its introduction, President Roosevelt made the position of his government clear: "To keep the cost of living from spiralling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgage and other obligations." Despite the President’s plea for restraint, retailers and those with small incomes soon found ways to subvert these credit restrictions. Hyman claims that while Regulation W did reduce the overall amount of consumer debt, “it also destabilized established lending practices and encouraged a hybridization of installment credit and charge accounts – revolving credit – that combined interest charges and flexibility in a form outside Regulation W.” Crucially for the history of the bank credit card, Regulation W neglected to include charge accounts and personal loans and helped to produce the revolving credit arrangement that makes the credit card such a profitable lending device.

Those who formulated the legislation did not foresee that this regulation would actually lead to an increase in open book credit lending. Open book credit lending is a credit system where a promise to make a payment on a future date is made without a set contract or payment schedule. With installment lending, regulated by Regulation W, you know what the obligations will be: the consumer pays a set rate over a fixed length of time. On the other hand, in open book credit arrangements, the lenders lend credit on the faith that payment will be made in the future. As a New York Times article highlighted, retailers discovered that the way to evade Regulation W was


139 Hyman, Debtor Nation, 111.

140 Ibid., 105.


142 Hyman, Debtor Nation, 98.
to “set up an open charge account for people who normally would not use one and who were not in a position to pay for the merchandise in full within seventy days.”143 In an attempt to deal with the rise of open book credit sources, regulators decided to place a payment limit of three months on all charge purchases.144 A consumer’s failure to comply with this regulation would require retailers to freeze the customer’s credit account. Retailers then converted the frozen accounts into a formal instalment plan, which fell directly under the standards set out in the original regulatory framework.145 To comply with these new requirements, retailers began to increase their use of mechanized payment technologies such as the Charga-Plate and the Addressograph - tools often used in early credit card purchases.

As mentioned in the introduction, these mechanized payment technologies were designed to help the accounting practices of retailers, creating a numbering system that would enable them to keep track of their customer’s account while replacing cumbersome logbooks and ledgers.146 This new form of mechanized payment and ‘revolving credit’ was becoming so popular that by 1949, 75 percent of major retailers had developed a revolving credit system and had formed credit departments.147 However, the rise of popularity of this new mechanized style of lending once again drew the attention of regulators.

Federal regulators quickly realized that attempts to regulate a more mechanized method of payment would result in considerable losses for retailers, as they would have to remove and replace their existing Charga-plate equipment and re-train their staff. The Charga-plate, unlike

143 Gahan, “Evasions of Curbs on Credit Fought; Stricter Enforcement Mapped to Stop the Violations of Regulation W.”
145 Gahan, “Evasions of Curbs on Credit Fought; Stricter Enforcement Mapped to Stop the Violations of Regulation W.”
146 Hyman, Debtor Nation, 117.
147 Ibid., 122.
paper contracts that had dominated the instalment credit market, was not an easily malleable device and was built to meet the standards of the original provisions set out in Regulation W. Since these devices could not be reprogrammed and because revolving credit was so popular, when Regulation W was amended in September of 1950, charge credit was not included. One year later, the first bank credit card was introduced.

2.3 The First Bank Credit Cards

With large retailers moving more and more towards revolving or open book credit, the officials at the Franklin National Bank decided to try to emulate their credit techniques and methods. In May 1952, the bank announced its “Charge-It” plan. Arthur Roth, the bank’s president, framed his bank’s charge account system as a means for small merchants to compete with larger retailers and a mechanism to help his bank make more money. According to Roth, these smaller merchants lacked “the working capital and clerks to handle charge accounts” and his bank saw an opportunity to provide these services. The Tampa Times newspaper described the Franklin credit card operation in the following manner: “the bank acts for all the participating stores just as the accounting and credit department of a big stores does for each of its departments.”

The bank charged William Boyle, a Vice President at the bank, with running their “Charge it” operation. Boyle had previously worked as a department store credit executive and brought the techniques and methods of the large department stores to the bank. One of the techniques adopted by the bank was to provide consumers a charge account card that they could use at merchants enrolled into the “Charge-it” plan. With these cards, consumers could purchase items with credit from participating merchants. The merchants would then take their sales slips to the bank and the bank would credit the merchant’s account, minus a 5% merchant discount fee on

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148 Ibid., 127.
149 Sean H. Vanatta, “Making Credit Convenient: Credit Cards and the Political Economy of Modern America” (Princeton University, Forthcoming).
151 Ibid.
152 Ibid.
every sales slip.\footnote{Ibid.} For their part, Franklin National Bank would then send consumers an invoice listing their debts. By 1952, the bank reported that it was handling 23,000 charge accounts and processed over $1 million worth of sales slips.\footnote{Ibid.}

One of the techniques that Franklin National Bank’s “Charge it” program borrowed from the department stores was their credit rating method. As historian Josh Lauer explains, consumer credit bureaus, which often informed department store credit lending decisions, first appeared in the 1870s collecting a vast amount of personal information on individual consumers.\footnote{Josh Lauer, \textit{Creditworthy} (New York: Columbia University Press, 2017).} These early credit-reporting systems relied heavily on the collection of personal information to determine the creditworthiness of a potential borrower. According to sociologist Donncha Marron, these early credit rating methods and techniques were “strategies of hierarchized avoidance by lenders.”\footnote{Donncha Marron, \textit{Consumer Credit in the United States: A Sociological Perspective from the 19th Century to the Present} (Basingstoke: Palgrave Macmillan, 2009), 117.} Marron claims that early credit evaluations techniques, which rested largely on the judgment of a credit lender, treated risk as a cost to be avoided whereas later statistically based credit scoring techniques transformed risk into a profitable opportunity.\footnote{Ibid.}

This early hierarchy of creditworthiness placed white wealthy men at the top, which meant that borrowers that were not white males had a nearly impossible time accessing any type of credit from lenders. As Hyman and Lana Swartz have illustrated, debt and payment were underlined by complex gender and racial politics. Hyman highlights how debt was feminized in the United States, with individuals holding excessive debt often being labeled weak husbands, as bad credit was believed to reduce male vitality.\footnote{Hyman, \textit{Debtor Nation}, 41.} At Franklin First National Bank, these early gender politics played into their advertising of their “Charge it” plan, as they targeted “Mrs. Housewife,” who they portrayed as using their husband’s card to make purchases at participating
merchants. Despite advertisements targeted towards white women, married women could not get a credit card of their own due to concerns over their creditworthiness. Instead, these women required their husbands to acquire a credit card.

While debt was feminized, communications researcher Lana Swartz claims that payment was masculinized. As Swartz argues, “If…housewives had learned to pay at department stores with Charga-Plates linked to revolving credit, their husbands (or sons) learned to pay at restaurants, hotels, gift shops, rental car lots, and other businesses all over the country with cards linked to charge accounts.” Swartz, focused on the history of Diner’s Club cards, claims that Diner’s Club targeted the ‘modern man.’ The ‘modern man’ fit with the early framing of non-department store credit cards as an exclusive club of trustworthy elite, which became tied to an “inexhaustible potency.” As Swartz also points out, African American men could acquire a Diner’s Club card, however it was of limited use, as many participating merchants turned down attempts by African Americans to use their cards.

Although gaining popularity in banking, consumer credit was still somewhat difficult to obtain from banks in the late 1950s and early 1960s. Credit was available to non-white male borrowers, however it was extraordinarily predatory. Precarious populations had little choice due to their race, sex, occupation, previous credit history, or neighborhood, but to rely on the more expensive finance companies to help deal with their debts. For instance, a 1966 government report noted systemic credit granting discrimination for black and Puerto Rican borrowers in New York, where higher interest rates were charged, or credit was not granted at all, with no regard for a borrower’s credit history or standing. The Federal Trade Commission found that small credit

159 Sean H. Vanatta, “Making Credit Convenient: Credit Cards and the Political Economy of Modern America.”
160 Swartz, “Gendered Transactions,” 140.
161 Ibid.
162 Ibid., 141.
163 The average $100 short-term loan cost $24.04 at a typical finance company compared to only $10.04 at a commercial bank, Special Subcommittee on Usury and Loan Sharks, “Memorandum.”
retailers in predominantly nonwhite communities were the worst perpetrators of predatory lending practices. In their investigation, they found that private financiers made almost all of the sales with excessively exploitative installment lending practices.\textsuperscript{165} Important to note about these small finance, real estate, and retail operations, was their sources of capital. Commercial banks bankrolled these credit retailers. Congressional reports stated that commercial banks were responsible for providing 70\% to 85\% of the short-term funds borrowed by finance companies.\textsuperscript{166} By providing the capital to finance companies, banks sought to avoid the risks associated with lending to non-white populations while also trying to profit from the predatory lending practices of the financiers.

The exclusivity of these cards, built on discriminatory gender and racial politics, presented a barrier to growth – one perhaps unrecognizable to bank executives and managers – of the bank credit card. As mentioned in the introduction, the growth of credit card debt in the United States since the 1980s came largely thanks to the integration of non-white male credit card holders. Later chapters detail how commercial bankers adopted military inspired statistical methods and techniques to transform their hierarchies of credit avoidance towards seeing previously risky populations as profitable opportunities. These techniques led banks to remove the financiers and lend directly to these precarious populations.

While these military techniques were slowly making their way into corporate operations in the 1950s, they, for the most part, did not enter banking until the 1960s. Meanwhile, other banks began to join Franklin National Bank in the bank credit card market. By 1953, Business Week reported that sixty bank credit card plans were known to be in operation.\textsuperscript{167} Four years later it was estimated that there were 754,000 cardholders and 11,000 merchants enrolled in bank credit card programs.\textsuperscript{168} However, it was not until 1958-1959 that the larger banks began to invest in

\textsuperscript{165} The sale price for goods sold were on average 50\% higher than goods sold outside of these communities. Some financing companies even forwarded their contracts to a state with loose regulatory statutes, so that the contract would be executed in a state with less consumer protections, Federal Trade Commission, “Administrative Function and Assessment of Compliance Under the Truth in Lending Act,” November 1969, Box 602A, LBJ Library.

\textsuperscript{166} Special Subcommittee on Usury and Loan Sharks, “Memorandum.”

\textsuperscript{167} “Marketing: Bankers In on Charge Credit.”

\textsuperscript{168} Ibid.
credit card programs seriously. For instance, the two biggest banks in America - Bank of America and Chase Manhattan - tasked committees with defining the credit card market, the existing competition, and the potential future profitability of a proprietary bank credit card plan.

Bank of America asked Joseph Williams to lead their Customer Services Research (CSR) Department, which had the responsibility of researching a card program. Beginning in December 1956, Williams and the CSR conducted interviews over a ten-month period with the managers of seven different banks as well as representatives of Mobil Oil and Sears Roebuck and Company on their credit card services. The CSR formally presented their results in October of 1957 to Bank of America executives. In their presentation, they concluded that: "On the basis of the research and analysis of the economic factors and benefits to be shared jointly by the Bank and its customers from charge account banking, we recommend the inauguration of this program." The report proposed a charge account plan that was very similar in operation to the institutions interviewed during the research process. One of the innovations to the charge account system introduced in the project was the establishment of an extensive telephone network designed to connect retailers directly to Bank of America's account processing center. The other major innovations proposed in CSR's plan was the call for the "Bank of America Credit Card" to be just a single plastic card.

Before plastic, the material found to be the most reliable for credit cards was metal. Metal offered a more reliable transference of consumer information because it was able to “carry

169 Timothy Wolters, “‘Carry Your Credit in Your Pocket’: The Early History of the Credit Card at Bank of America and Chase Manhattan,” Enterprise and Society 1, no. 2 (June 1, 2000): 328.

170 In addition to interviews with these creditors, the CSR group also surveyed both customers and retailers to gauge their interest and reaction to the introduction of a statewide bankcard, Ibid., 329.

171 Ibid.

172 Before the implementation of this program, merchants had to contact – if a floor limit was reached – the cardholder’s bank to inquire about the holder’s ability-to-pay. Certain problems such as banks being closed before merchants closed and telephones lines that were busy created significant challenges for the efficiency of the transaction process of earlier iterations of the bank credit card. The CSR’s proposal would see those calls sent to a central location that would hold the credit information of cardholders, helping to eliminate at least some of the problems found in the early bank credit card system, Wolters, 329.

173 Ibid., 329.
individualized information.”¹⁷⁴ Bank of America was not the first credit card issuer to use plastic cards. The oil and gas industry saw the use of plastic as the material for their credit cards as a cost effective upgrade over the metal cards previously issued. As sociologist Joe Deville points out, the Simplan system used by oil and gas companies was the first example of a plastic credit card.¹⁷⁵ The system provided cardholders with a

…wallet-sized plastic card, perforated with small rectangular holes (effectively a unique customer number), with the customer’s name and address embossed on to the card. The card would be inserted into a reader that would transfer this embossed and punched information on to the resulting invoice, tying it to the customer and producing a carbon copy.¹⁷⁶

Plastic, like metal, allowed card issuers to include individualized information on each card. For Bank of America, with the introduction of The Databosser, “a high-speed embossing machine able to read customer information fed in via IBM punch-cards,” plastic offered a cost effective way of mass-producing their credit cards, which the CSR viewed as key to their profitability.¹⁷⁷

The potential profitability of the card was the main selling point of the report. The CSR argued that in the case of credit cards, profitability was a function of volume.¹⁷⁸ Banks needed to get the cards into people’s hands, coax them to use it, and make sure that merchants accepted the BankAmericard.¹⁷⁹ To put a card in every hand, in an early market test in Fresno, California, the CSR ordered a mass mailing of close to 60,000 cards.¹⁸⁰ The mass mailing worked, as it resulted

¹⁷⁵ Ibid.
¹⁷⁶ Ibid.
¹⁷⁷ Ibid.
¹⁷⁸ Specifically, the report argued that profitability was tied to "the degree of market penetration achieved, the amount of average purchases and the ration of charges per account realized from actual operation," Wolters, “Carry Your Credit in Your Pocket,” 330. 330.
¹⁷⁹ Williams and the CSR projected a net annual return-on-investment (ROI) of just over 5 percent if the bank could match national averages and an ROI of over 11.5 percent if it could exceed these averages, Ibid., 300.
¹⁸⁰ Fresno was an area small enough to avoid media scrutiny in case the program failed, and also a city where Bank of America dominated the banking market. Interestingly, the executives of Bank of America decided not to place their installment loans division in charge of implementing the credit card program; that responsibility fell onto the shoulders of Williams and the CSR, Ibid., 331.
in the type of market penetration that saw two million consumers with cards and 800 more retailers signing up for the "BankAmericard" program.\textsuperscript{181} While the mail out managed to get a strong customer base, demonstrate merchant acceptance, and helped get the BankAmericard program off the ground, the results were not all positive.

BankAmericard cost Bank of America millions in losses in its first years in operation and the Chase Manhattan card had losses of close to $1.5 million in 1959 and 1960.\textsuperscript{182} Facing a decision of whether to invest more money into their own credit card operations, representatives from Chase Manhattan flew to California to meet with Gus Wagele the head of Bank of America’s credit card department. Upon meeting with Wagele, the Chase officials discovered that Bank of America did not include advertising expenses and indirect and overhead expenses in the budget of their credit card operations.\textsuperscript{183} They also learned that Bank of America’s profit projections did not take into account the bank’s decision to write off considerable bad debts. The projections maximized the potential benefits of the card while minimizing the inconvenient bad debts. Factoring in these two significant costs meant that the BankAmericard would still be in the red, and served as a catalyst for Chase Manhattan’s decision to exit from the card business.\textsuperscript{184} Despite Bank of America’s creative accounting practices and Chase Manhattan’s exit from the credit card market, the unprofitable bank credit card persisted, as did its high operational costs.

The labor costs of processing paper sales drafts made most bank and retail credit card operations expensive and threatened their overall profitability. Facing a similar cost problem, Herbert H Kimball, Vice President of the Federal Reserve Bank of New York, told \textit{The New York Times} that women workers were at the heart of the payment-processing problem.\textsuperscript{185} Predominantly

\textsuperscript{181} Ibid., 333.
\textsuperscript{182} Ibid., 344.
\textsuperscript{183} Ibid., 347.
\textsuperscript{184} Ibid.
\textsuperscript{185} The problem that banks faced was that they were notorious for paying low-wages, and often only offered work that did not require a college education. Two of the most common jobs offered by banks were either customer services (e.g. bank teller) or clerical. Women mainly held both of these jobs, S.E. Trotter, “Recruiting for Bigger Bank Profits,” \textit{Banking} 58, no. 4 (October 1965): 45; See also Kim England and Kate Boyer, “Women’s Work: The Feminization and Shifting Meanings of Clerical Work,” \textit{Journal of Social History} 43, no. 2 (2009): 307–40, https://doi.org/10.1353/jsh.0.0284; Jennifer S. Light,
white women were responsible for operating the key-punch and sorting machines and served as the clearinghouse ‘computers.’ Kimball claimed that because women did this work, it presented a problem for the stability of the check clearing process. As Kimball explained, the “work is done by young women, many of whom leave to be married or have children two or three years after they are hired. Often banks find it difficult merely to keep the jobs filled.” The Federal Reserve enlisted the expertise of the Stanford Research Institute to investigate ways for the clearinghouse to deal with the always-increasing number of checks it handled. Kimball told The New York Times in 1958 that in hiring the Stanford Research Institute, the Federal Reserve hoped to eliminate its “personnel problems.”

By 1960 the percentage of bank tellers and clerical workers that were women was close to 70 percent. Tellers and clerical workers were relied upon to process, sort and enter the credit card slips at the end of each day. While large data processing centers would employ a roughly equal number of men and women, the men tended to do the more ‘masculine’ work of operating and maintaining the machines, while white women held the majority of clerical data entry positions. However, the banks and Federal Reserve’s ‘personnel problems’ were not solely due to the high employee turnover, it was also labor costs. Employee compensation was the highest operating expense of these early data processing operations, representing 20% of the


Ibid.

Ibid.


operating costs.\textsuperscript{191} The costs of data processing correlated with the volume of check and credit card transactions. The more payments made by consumers by either check or credit card, the more paper there was to process.

The growth in the amount of paper sales drafts is correlative to the rise in individual indebtedness in the postwar period. In the twenty years after WWII, consumer debt in the United States had a growth rate that was four and a half times greater than the rate of the US general economy.\textsuperscript{192} Despite regulations to slow consumer credit use, debt drove the consumption that was spurring economic growth. As mentioned in the introduction, at the end of the Second World War, 3.5% of a family’s disposable income was being used to pay off loans. Twenty years later, that number would be five times larger, with households dedicating 15.2% of their income to paying off their debts.\textsuperscript{193} This fivefold increase resulted in American households paying $13 billion in interest and service charges in 1964, a number that approximated the amount of the interest payments made by the US Government on the national debt.\textsuperscript{194} Historian Christine Zumello highlights that “from 1956 to 1967, consumer debt increased by 133 percent (from $42.5 billion to $99.1 billion), and installment credit increased by 146 percent (from $31.7 billion to $77.6 billion).”\textsuperscript{195}

Low- and middle-income households especially felt the pervasiveness of debt. Over half of these families had incurred some form of debt, and close to twenty percent dedicated nearly a quarter of their income to debt repayment.\textsuperscript{196} The reality of this indebtedness was that the loans were often needed to help finance existing liabilities. By 1963, close to 50% of all installment loans

\begin{footnotes}
\textsuperscript{191} The other significant costs: credit charge-offs 14\%, data processing 5\%, and net fraud losses 3.5\%, Andrew Brimmer, “Growth and Profitability of Credit Card Banking,” \textit{The Journal of Consumer Credit Management} 3, no. 3 (February 25, 1972).


\textsuperscript{193} Special Subcommittee on Usury and Loan Sharks, “Memorandum.”

\textsuperscript{194} Wright Patman, “Proposed Report on H.R. 11601, The Consumer Credit Protection Act.”


\textsuperscript{196} Special Subcommittee on Usury and Loan Sharks, “Memorandum.”
\end{footnotes}
were being used to consolidate debts.\textsuperscript{197} Debt had become central to American life. It was part of the social environment that enabled many to survive and made a life marketed around mass consumption possible.

Within this burgeoning debt environment, between 1951-1964 two hundred banks had experimented with bank credit card programs, but only about half of those bankcard programs remained in operation by 1964. As exemplified by the failure of Chase Manhattan’s card, bank credit card failures were not just associated with small banks. By 1967, \textit{Life} magazine was predicting the demise of the bank credit card at the hands of a sea of red ink.\textsuperscript{198} The early history of the bank credit card reveals that this credit device was largely unprofitable, had personnel problems, and an aversion to risk. However, despite the failure of many banks, between the spring of 1965 and the summer of 1966, the number of commercial banks offering bank credit cards more than quadrupled from 70 to close to 300.\textsuperscript{199} Thanks to the rapid increase in bank credit card plans, there were 5.1 million active credit card accounts and over $600 million in credit outstanding by the mid-1960s.\textsuperscript{200}

\section*{2.4 Conclusion}

Early bank credit card operations were not joint-venture arrangements and did not have a socio-technical ‘infrastructure.’ As exemplified with Bank of America and Chase Manhattan, in the first 15 years of its existence, bank credit card operations did exhibit some semblance of partnerships between banks. These partnerships came in the form knowledge sharing, as banks provided other banks with knowledge of some of the techniques and methods they used in their credit card operations. At times, the banks even shared their profit and loss information. However, banks did not yet use an interchange system and they did not invest in building the concrete fix installations to support a global interchange network. There are several reasons behind this lack of infrastructural arrangement. For instance, regulations prevented interstate

\begin{footnotesize}
\begin{enumerate}
\item[Ibid.]
\item Hock, \textit{Birth of the Chaordic Age}, 103.
\item Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks,” 21.
\item Board of Governors, “Bank Credit Card and Check-Credit Plans: A Federal Reserve System Report.”
\end{enumerate}
\end{footnotesize}
branch banking operations. There were also economic constraints, such as the costs of manually sorting paper sales drafts also presented itself as a serious obstacle in the growth of the bank credit card.

The one element that supported the spread of early bankcard operations was the demand for credit and a focus on the part of bank management on mass marketing their cards. However, mass marketing efforts and the high consumer demand for credit brought high labor costs and ‘personnel’ problems, which rendered most card operations unprofitable. The remainder of the dissertation explains how this largely unprofitable device became so ubiquitous and profitable beginning in the late 1960s. To understand the strategic and organizational changes implemented by commercial bank credit card operations in the mid-1960s the next chapter traces the genealogy of ‘infrastructure’ and its connection to the environmentality that would guide the creation, growth, and development of the bank credit card infrastructure.
Chapter 3
Environmentality of Infrastructure

3 Environmentality of Infrastructure

A growing number of informative histories of the credit card have emerged over the last thirty years. These histories provide critical insights into the growth and development, as well as the political and economic dimensions, of the credit card. However, these histories often lack a critical explanation as to how a device that was largely unprofitable until the mid-1960s became a trillion dollar infrastructure. The remainder of this dissertation sets out to provide an explanation for this transformation with attention to the importance of shifts in bank management practices.

To start, this chapter posits that the governance framework, or governmentality, that guided the development and growth of the bank credit card infrastructure emerged out of security and finance logics first implemented by NATO in the immediate postwar period. From its military origins, the chapter then traces how this environmentality informed US foreign development and modernization efforts before finally, in the early 1960s, making its way into US domestic economic development programs before finally informing the management practices guiding the development of the bank credit card infrastructure. What may seem like a detour away from banking into the genealogy of postwar American formulations of infrastructure and environmentality will set the stage for the rest of the dissertation and its overall argument: the formation of the bank credit card infrastructure was generated by an environmentality approach to bank management. In tracing the emergence of ‘environmentality’ in banking, this chapter serves to


202 Following Foucault, the chapter claims that this governance rationality, or governmentality, is better understood as an ‘environmentality.’
illuminate the inextricable link between this postwar environmentality and our contemporary understanding of ‘infrastructure.’

The term ‘infrastructure’ was first conceptualized not by the British or American government, but by French engineers in the 19th century. In the original French definition, infrastructure was used to describe the elements that provided support to a larger superstructure, such as the piers that provided support to the stonework of a quay. ‘Infrastructure’ before 1950 was not called by that name by the governments implementing, investing, and supervising these projects. Instead, governments referred to these projects as public works, systems, networks, or internal improvements. The contemporary understanding of infrastructure did not emerge until the mid-twentieth century. The first appearance of the term ‘infrastructure’ outside the French engineering context was with the creation of NATO’s ‘Common Infrastructure Program’ in 1949.


Recent work by anthropologist Ashley Carse on the etymology of ‘Infrastructure,’ demonstrates that in English usage it is a postwar concept.\textsuperscript{206} Inspired by Bill Maurer’s lateral anthropology method, Carse claims that infrastructures must be studied as both a set of abstractions and as material assemblages. He details how infrastructure was a term used within a military and development context to describe supra-national security coordination and economic development.\textsuperscript{207} In his work, Carse argues that infrastructures “conceptual plasticity and the undeniable materiality of its common referents like roads, pipes, rails, and cables” enabled the concept to attach to the world-making projects of the postwar era.\textsuperscript{208} This chapter argues that underlying this project was an ‘environmental’ understanding of the world being made, where the ‘environment’ was understood as a complex realm composed of an interrelated set of socio-technical spheres. As a result, it

\textsuperscript{206} Ashley Carse, “Keyword: Infrastructure: How a Humble French Engineering Term Shaped the Modern World,” 35.

\textsuperscript{207} Ibid.

\textsuperscript{208} Ibid.
highlights the relationship between ‘infrastructure’ and the environmentality that informed the formation of the socio-technical arrangements that support the bank credit card infrastructure.

The chapter shows how infrastructure came to encompass not just the concrete ubiquitous material assemblages that undergird everyday life but more importantly the calculative and speculative long-range planning and financing environment-making projects that sought to instigate economic development and a pro-capitalist convergent world order. The thinking of ‘infrastructure’ in relation to the Cold War provides, as geographer Emily Gilbert argues, “an opening for analyzing the relations of power that pervade the complex forms of securitization that are being enacted.” Securitization here refers to “the discursive and political processes through which societal phenomena become understood and addressed as security issues.” The work of anthropologists Stephen Collier and Andrew Lakoff also influenced the focus of this chapter. Collier and Lakoff have traced the history of how infrastructures became understood as vital systems by US military officials and bureaucrats. They suggest that the adoption of military-inspired operations research and systems analysis methods influenced the adoption of a rationality amongst military official and bureaucrats that connected critical infrastructures, the economy, and security. Lakoff and Collier argue that this connection of vital systems to the economy and overall security of the state not only reflected the changing character of war but also represented the introduction of new military-inspired techniques and rationalities into both industry and government.

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212 Ibid.

213 Ibid.
This chapter provides the conceptual genealogy of ‘infrastructure’ to demonstrate how the development of the bank credit card infrastructure connects with the postwar abstractions, objectives, planning, and financing practices attached to this concept. The remaining chapters build off this chapter and its focus on the genealogy of infrastructure. The genealogy provides critical insights into the origins of the management and planning practices, as described in Chapter 4, that convinced many banks to enter the credit card market in the mid-1960s and shaped how they ran their credit card departments. It also provides a foundation for chapter 5, which outlines the organizational arrangements and joint-financing agreements that helped to create Visa and MasterCard, as well as their global cyber-infrastructure. Finally, the chapter helps to clarify the relationship between social values and infrastructure, which is important to understanding the argument presented in Chapter 7, which states that the bank credit card infrastructure further entrenched in the United States systemic and institutionalized forms of racism and sexism. The genealogy of infrastructure provides the foundation for an answer as to how the bank credit card infrastructure emerged and became a trillion dollar industry and critical lifeline for millions of people living in the United States.

### 3.1 Infrastructure, Security and Finance

The implementation of NATO’s ‘Common Infrastructure Program’ was a landmark moment in the history of military alliances. It was the first recorded time since the 5th century BC that a contingent of nations agreed to a common-funded defense initiative. The ‘Common Infrastructure Program’ grew from an appraisal by the Western Union Defense Organization (Belgium, France, Luxembourg, the Netherlands, and the United Kingdom) of the costs of rebuilding and rearming Western nations following the Second World War. These countries found that the price of rebuilding after the war was uneven, with some members more heavily impacted by the war than others, and discussions began over creating a common infrastructure program.

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214 50 Years of Infrastructure: NATO Security Investment Programme Is the Sharing of Roles, Risks, Responsibilities, Costs and Benefits (NATO, 2001), 23.

215 Ibid.
The first round of talks resulted in an agreement between the five Western European countries to cost share a £32 million construction program.\textsuperscript{216} However, shortly after the first round of negotiations, these nations determined that more reconstruction was necessary and proposed an ‘infrastructure’ budget of £79 million in 1951.\textsuperscript{217} Given the dramatic increase in costs, negotiations over how to cost share were referred to NATO’s Council Deputies. However, discussions amongst the deputies failed, and the issue of cost-sharing went unresolved until the NATO Council met in Ottawa in September 1951. At the Ottawa meeting, it was decided that both the Canadian and US government should contribute to the costs of the infrastructure program.\textsuperscript{218} The decision to include these North American allies in the cost-sharing ‘infrastructure’ program drew the attention of the North American press.

The \textit{New York Herald Tribune} published an article entitled, “Fighting Word, New Type: Infrastructure has meaning, but dictionary doesn’t define it.” The article provided details on a NATO communiqué issued following the meeting in Ottawa, which contained the following note: “the council noted agreement has been reached on the financing of the ‘infrastructure’ program of airfields, communications and certain installations for the support of the forces.”\textsuperscript{219} The apostrophes around infrastructure underline the novelty of the term. In February of 1952, \textit{The Washington Post} published an editorial titled merely, “Infrastructure,” which stated:

It is easy to detect that some of the officers on duty with the North Atlantic Treaty Organization have seen long service in the Pentagon. Where else could this horrible new term "infrastructure" have originated but with people steeped too long in the gobbledygook of Washington? And what, pray, does "infrastructure" mean? You might guess that it describes some sort of heating lamp contraption designed to make use of infra-red rays. Nothing of the sort. It means, as we understand it, the military installations

\textsuperscript{216} \textit{Ibid.}
\textsuperscript{217} \textit{Ibid.}, 24.
\textsuperscript{218} \textit{Ibid.}
(together with men, equipment and finances) built in one country for the benefit of the whole NATO membership.\(^{220}\)

As the editorial highlights, infrastructure was a new concept that referred to the construction of military installations in allied countries meant to secure the survival of all NATO members.

The concept of infrastructure was so novel that NATO provided the following definition to the public to ensure its proper understanding: “static items of capital expenditure required to provide material backing for operations and plans necessary to enable the higher command function and the various forces to operate with efficiency.”\(^{221}\) To further clarify what ‘infrastructure’ meant, NATO provided a list of what was and what was not considered ‘infrastructure.’ Fixed ground installations such as air bases, depots, warehouses, barracks, pipelines, bridges, and training grounds were ‘infrastructure.’ On the other hand, troops and mobile weapons were not infrastructure.\(^{222}\) Troops were variable elements in the ‘infrastructure’ project, and not considered part of NATO’s ‘infrastructure’ program. As Foreign Affairs correspondent Drew Middleton noted, infrastructure represented a technical military reconceptualization of defense, which stressed the logistical basis of war.\(^{223}\) Middleton claimed that while the public tended to measure the strength of NATO by the number of divisions or squadrons (i.e, troops), the allied nations were measuring the strength of their defense by its logistical foundations.\(^{224}\) Infrastructure’s insertion into NATO parlance was not simply to showcase a bureaucratic neologism; there was a very pragmatic reason for introducing the ‘infrastructure’ program.


\(^{221}\) Kerr, “Fighting Word, New Type.”

\(^{222}\) Ibid.

\(^{223}\) Ibid.\(^{224}\)

\(^{224}\) Ibid., 434.
By 1953, infrastructure became a crucial part of NATO’s new defense philosophy, described as the “long haul” and the “stretch out,” replacing the previous “year of crisis” philosophy.\textsuperscript{225} Infrastructure represented a core element of long-range planning efforts that sought to confront future uncertainties. The \textit{New York Times} reported that as part of this new philosophy emphasizing long-range planning NATO would be paying major attention to “‘infrastructure’ that is, the strengthening of the indispensable supporting facilities - bases, supply dumps, airfields, petroleum pipelines, supply lines.”\textsuperscript{226} Leading the implementation of this new defense philosophy was General Eisenhower and SHAPE (Supreme Headquarters, Allied Powers Europe). According to Colonel Robert J. Wood, Secretary of SHAPE, the organization’s first task was to push forward the planning and development of “infrastructure” and helping allied nations formulate a means to divide the costs of these concrete installations.\textsuperscript{227}

Infrastructure, as used by military officials, was as much about questions of finance as it was about security and the allocations of physical military support systems. Grouping these installations (e.g. airfields and communications systems) under the term ‘infrastructure’ eliminated the need for holding long and arduous cost-sharing negotiations, and the problem of identifying which nation would pay for the construction of each apparatus.\textsuperscript{228} Additionally, ‘infrastructure’ allowed an amalgamation of funds that provided a budgetary base that exceeded the fiscal limits of each country.\textsuperscript{229} The pooled

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\textsuperscript{225} Hanson W. Baldwin, “NATO’s ‘Stretch-Out,’” \textit{The New York Times}, April 26, 1953.

\textsuperscript{226} Ibid.


\textsuperscript{229} Relative contributions were based on an agreed upon percentage of a nation’s net tax revenue: US Aid, “Mutual Security Program: Fiscal Year 1958 Estimates” (US Aid, May 31, 1957).
resources provided NATO commanders with the flexibility to assign or earmark funds for specific projects without the need for constant negotiations between Allied nations.\textsuperscript{230} They could use these funds to build the ‘infra-structure’ to support NATO objectives, which highlight the inextricable link between security and finance.

As the remainder of this dissertation reveals, this type of financial arrangement was vital to the construction of the bank credit card infrastructure. While the US government was counted on to provide strong financial support, it was recognized that a single nation could not singularly finance the construction of fixed concrete installations to help with European reconstruction. It was also clear that the Americans and their European allies were not interested in any type of unilateral financing arrangement for political and economic reasons. With regards to the bank credit card infrastructure, given the regulatory restrictions placed on commercial banks and the immense costs of automation, it was clear that the construction of concrete installations to support an immense credit card operation was not feasible for one bank. It was also clear that, in a market filling up with competitors, any type of unilateral financial arrangement between competitors was not likely to be looked upon favorably. As a result, as Chapter 5 details, with the formation of bankcard associations we can see the same type of joint financing and governance relationship amongst commercial banks as exhibited by NATO allies in their ‘Common Infrastructure Program.’ The bank credit card associations also shared similar overarching objectives as the NATO infrastructure program.

The objectives for the NATO infrastructure program were clear about the link between security and finance. NATO sought to build concrete installations to provide defense against imminent threats and promote international economic growth. As a later communiqué noted:

\begin{quote}
It was agreed that the development of sound national economies and the increase of military forces should be pursued concurrently; in certain fields the establishment of
\end{quote}

\textsuperscript{230} Ibid.
long-term joint military production programs appeared to be the least costly and the most efficient solution.231

The quote highlights the dual deployment of ‘finance’ in the infrastructure program. Infrastructure represented both a joint military production program ‘financed’ by an alliance of nations and a means to develop national economies through financial investment in concrete installations.232 The communiqué also demonstrates how NATO conceived of infrastructure as a means to increase its military force and establish international law and order. These two goals of economic growth and security are not mutually exclusive.

Recently, cultural political economists have elucidated the inextricable link between finance and security.233 As mentioned early, Lakoff and Collier have outlined how the development of operations research and systems analysis methods in the military helped military officials and bureaucrats connect infrastructure, the economy, and national security. Elsewhere, political scientist Marieke de Goede has argued that “finance is security’s economic double,” highlighting how finance has historically been deployed in the service of security while also producing societal insecurities.234 de Goede claims that to understand the link between finance and security requires the recognition that security is a technology of the future and of risk. Drawing from Foucault, de Goede defines security as a technology that “works through a probabilistic comprehension, calculation


232 The same communiqué claimed: “…the Council found that there had not yet in fact been any change in the fundamental threat to the security of free peoples. The most striking evidence of this continuing threat is the huge and constantly strengthened military force maintained by those nations whose policies have been responsible for the present tension, and who are still promoting aggressive war in several parts of the world,” Ibid.


and colonization of uncertain futures.” Security as a governmental technology attempts, in the face of an uncertain future, to maximize positive elements, such as value creation, and minimize potentially risky (e.g., the Soviet threat, or colonial resistance) effects. NATO’s infrastructure projects represented attempts to construct concrete installations to cultivate environments meant to maximize economic development and minimize the risks presented by Communism.

As de Goede explains, finance is intimately related to security, as “financial speculation rationalizes itself as a security technology that tames the uncertain future.” In the case of infrastructure, Allied nations joint financing of infrastructure represented a type of financial speculation that rationalized itself as the best means to tame the uncertain future of the Cold War era. With NATO’s “Common Infrastructure Program,” we can see how financial logics such as cost-sharing combined with defense initiatives to secure and expand a liberal pro-capitalist way of life and led to the speculative financial investments in concrete installations to support this project. As Chapter 4 highlights, commercial banks made future oriented investments in credit card operations based on speculation and calculated projections on the future of banking. In the case of the bank credit card associations, as Chapter 5 describes, they were charged by member banks to design and construct the concrete installations that would enable both the growth and enhance the security of their bankcard operations. These investments acted as a means for commercial bankers to confront the future uncertainties inherent in what was throughout the 1950s and early 1960s a largely unprofitable device.

By the mid-1950s, NATO’s infrastructure program led to the construction of 125 airfields, 6,100 kilometers of fuel pipelines, 16,000 kilometers of telephone landlines, 10,000 kilometers of radio relay circuits, 1,700 kilometers of submarine cable, as well as numerous pump stations, fuel storage depots, piers, maritime airfields, and munitions

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235 Ibid.
236 Ibid.
The infrastructure program dispersed attention from divisions, squadrons, and ultimately people onto the concrete logistical material assemblages designed to protect, promote, and organize the cultural system and productive activities supporting Western capitalism. Chapter 5 emphasizes how executives at commercial banks also began to see investments in concrete fixed payment installations as a means to reduce the labor costs and ‘personnel problems’ associated with paper processing, essentially dispersing attention away from their white women clerical workers and data processors.

NATO’s infrastructure program reflected the postwar environmentality outlined in the introduction. Within the environmentality framework, the ‘environment’ was understood as crisis ridden and increasingly complex and inter-connected. As critical theorist Brian Massumi explains, “the overall environment of life now appears as a complex, systemic threat environment, composed of subsystems that are not only complex in their own right but are complexly interconnected.” According to Massumi, given the ubiquity of possible threats, government attention became focused on speculative ways to act on the ‘environment’ and systematically modify its variables. One of the ways governments could work on the ‘environment’ and systematically alter its variables was to make financial investments in long-term concrete materials designed to provide security against probabilistically imminent threats. However, as NATO’s Common Infrastructure Program highlights, financing these large projects was costly and led to the historic alliance of national militaries to jointly finance the construction of these concrete installations, an arrangement emulated by commercial banks in the formation of the bank credit card associations.

However, the postwar conceptualization of infrastructure did not solely entail military financing arrangements. The deployment of the concept of infrastructure in development

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237 50 Years of Infrastructure: NATO Security Investment Programme Is the Sharing of Roles, Risks, Responsibilities, Costs and Benefits, 50–52.


239 Ibid., 153.
projects, as the next section details, exhibits how the modernization of post-colonial states through economic and social development projects also became framed as a security issue. It also highlights the emergence of ‘social infrastructure,’ or how social values became attached to the concept of infrastructure in the context of postwar development projects. Modernization theorists sought to introduce this social infrastructure by transforming the economic, social, technological, political, and legal systems of ‘underdeveloped’ countries.

Crucial to this dissertation’s overall argument are the ways that the postwar conceptualization of ‘infrastructure’ not only entailed joint-financing arrangements and the construction of concrete installations but also American inspired free-market social political, legal, and economic systems. This understanding provides the foundation for the remainder of the dissertation that details how commercial bank officers and bank credit card association executives worked to reconfigure the social, economic, legal, political, and technological spheres of the US financial system to support the growth and survival of the bank credit card infrastructure.

3.2 Infrastructure and Modernization

In the early 1950s, ‘infrastructure’ found its way into American modernization and economic development projects. The postwar conceptualization of ‘infrastructure’ represented an effort by the US government to reconfigure the economic, social, legal, and political spheres of foreign nations and impoverished Americans communities. Modernization theorists understood politics as systematic – a combination of evolutionary biological, social and cultural factors - and closely adhered to a racialized logic that promoted white supremacy. Modernization theory helped to prioritize American investment in concrete logistical systems (i.e., infrastructure) in foreign nations and at the same time also attached American social values into the concept of infrastructure (e.g., social infrastructure).
With the implementation of the Marshall Plan we can see the first efforts to ensure the security of American interests against the threat of Communism by stimulating economic development in foreign nations.\textsuperscript{240} The Truman administration’s Marshall Plan in 1947 provided $13 billion in aid to increase the GNP of Western European countries.\textsuperscript{241} The administration then announced its “Point Four” program in 1949, which promised to introduce a new program of technical aid and increased foreign investment in nations deemed to be ‘underdeveloped.’\textsuperscript{242}

‘Underdeveloped’ was a concept attached to logics of racial difference and white supremacy, as the regions identified by the US government as underdeveloped were considered “immature, volatile, and unprepared for responsible self-government.”\textsuperscript{243} The investment in the economic development of nations coded in this way represented the attempt by the US government to expropriate and forcefully integrate non-American populations into US inspired social, political, economic, technological and legal systems. The “Point Four” program also represented an attempt to manufacture an international logistical system to “keep natural resources and raw materials flowing into vital European markets.”\textsuperscript{244} As a result, development projects, much like NATO’s Common


\textsuperscript{241} Latham, \textit{The Right Kind of Revolution}, 31.

\textsuperscript{242} Ibid.

\textsuperscript{243} Ibid., 32.

\textsuperscript{244} Ibid.
Infrastructure Program, often directed investments towards logistical systems such as highways and electrical networks.\textsuperscript{245}

The Truman administration framed these development programs as a means of defense. On March 7\textsuperscript{th}, 1951 the United States International Advisory Board made this point clear. Appointed by Truman, the Board was led by Nelson Rockefeller and concluded, “strengthening the economies of the underdeveloped regions and an improvement in their living levels must be considered a vital part of our own defense mobilization.”\textsuperscript{246} These early programs did not contain mention of “infrastructure.” However, the emphasis of these projects on developing both the logistical material assemblages to support resource extraction and the cultural systems to integrate ‘underdeveloped’ populations into US inspired social, political, economic and legal systems quickly became quintessential to the conceptualization of ‘infrastructure.’ The success of the ‘Common Infrastructure Program’ and the Marshall Plan in rebuilding and fortifying Western Europe, in particular, provided US social scientists with a sense of confidence in their ability to understand, explain and control the general trajectory of social change for any nation at the macro-environmental level.

International relations historians have identified both Harvard’s Department of Social Relations and MIT’s Center for International Studies as the nucleus of the modernization movement.\textsuperscript{247} Led by notable social scientists such as Talcott Parsons, Gabriel Almond, Lucian Pye, and Walt Rostow these interdisciplinary centers sought to deploy social scientific experts to collect and translate data and information to produce policies to help


the development of foreign nations.\textsuperscript{248} Parsons work, in particular, was influential in the immediate aftermath of WWII.

Parsons worked at Harvard’s Department of Social Relations and was committed both to developing a general theory of social relations and the unification of the social sciences. Inspired by the work of Max Weber, Parson’s helped solidify sociology as a distinct discipline in the United States.\textsuperscript{249} Historian of science Joel Isaac notes that Parsons represented a new wave of technocratic social scientists that portrayed themselves as “possessors of tools and programs designed for precision social engineering.”\textsuperscript{250} Of particular interest to Parsons, was the development of a more modern conception of society to confront the deficits he recognized in classical liberalism. As modernization historian Michael Latham explains, “Where classical liberalism stressed utilitarian, profit-maximizing behavior and treated society merely as an aggregate of naturally self-serving individuals, Parsons rejected that approach as reductive and deterministic.”\textsuperscript{251} For his part, Parsons sought to re-conceptualize the classical liberal society as a ‘functioning system’ that moved towards states of consensual equilibrium of the right structures were in place to meet individual needs and reflected common ideals and values of a specific culture.\textsuperscript{252}

At the core of Parsons’ theory was the understanding that individual human actors were biological organisms acting in an environment, and that social changes reflected the


\textsuperscript{251} Latham, \textit{The Right Kind of Revolution}, 44.

\textsuperscript{252} Ibid., 45.
evolutionary adaptation of social systems to their environments.\textsuperscript{253} Logically following from this framework was the modernization idea that manipulating variables within an environment could manufacture social change and lead to populations adapting their social system to this new environment. Parsons’ work reflects what philosopher Peter Sloterdijk refers to as the postwar rejection of the metaphysical classifications of being of classical liberalism. Sloterdijk claims that these old classifications of being, which related to the power relations underlying classical liberalism, were reconceptualized to include the insights of ecology and cybernetics.\textsuperscript{254} Within these new scientific frameworks, the self is transposed into its material or external environment, conceived as a socio-material space composed of both natural and informational elements. This environment, as Brian Massumi explains, is understood as chaotic, but also orderly, as the chaos of this socio-material environment allows for a convergent type of order to emerge.\textsuperscript{255} These social scientists were instrumental in the production of the postwar environmentality that guided infrastructure investments and development programs.

Parsons’ functioning systems hypothesis deeply informed and reflected the development strategies of the US government in the immediate postwar period, which prioritized economic development through transforming the technological, social, political, legal, economic systems of post-colonial states.\textsuperscript{256} Historian of science Hunter Heyck explained how this type of systems thinking as exemplified by Parsons’ work introduced a new perspective on science, society, and nature, which used terms such as systems, function, organization and process.\textsuperscript{257} Heyck claims that this new perspective was taught in public


\textsuperscript{255} Massumi, “National Enterprise Emergency Steps Toward an Ecology of Powers,” 175.


\textsuperscript{257} Hunter Crowther-Heyck, \textit{Age of System Understanding the Development of Modern Social Science} (Baltimore: Johns Hopkins University Press, 2015).
administration programs and business schools, influencing a generation of management scientists. As Chapter 4 highlights, consulting firms and management scientists helped to introduce this type of environmentality into commercial banking in the 1960s, which instigated in banks like First National City Bank a move into the credit card market.

Within modernization efforts, economic development was the highest priority. The modernization movement emerged alongside ‘the economy’ and the understanding of the national economy as the self-evident macroeconomic description of national economic activity. The prioritization of economic development by modernization theorists emanated from the work of the economists operating out of MIT’s Center for International Studies (MITCIS), which was established in 1951. Economist Walt Rostow was the key figure of the institute. As international relations historian Howard J. Wiarda details, Rostow claimed “economic development…gave rise to social change…and in the mix of economic growth and social modernization, stability, democracy, and anti-communism would all be enhanced.” According to Wiarda, Rostow’s logic, supported by the work of sociologists such as Parsons that stressed adaptability of societies to their environments, became “the U.S. model for dealing with the developing world” (italics in the original). Joining Rostow at the MITCIS was the former Director of Economic Research for the CIA Max Milikan.

Milikan outlined the MITCIS research program’s objectives, stating the center was interested in “the application of basic social science research to problems of U.S. policy

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258 Ibid.
261 Howard J. Wiarda, Culture and Foreign Policy: The Neglected Factor in International Relations (Burlington, VT: Ashgate, 2012), 4.
262 Ibid.
in the current world struggle. He added that the MITCIS ultimate aim was to establish:

...the stable evolution of national societies towards effective democracy is probably essential to the establishment and maintenance of a world environment which will permit American society to evolve over the long run within the framework of its traditional principles and institutions... Economic development of the free nations...is obviously a prime determinant of their political stability. It is a determinant, moreover, on which U.S. policy and action has a major impact. It is, therefore, important for us to know as much as possible about the factors which limit and those which encourage such development.

Milikan noted that to achieve this objective of establishing a world environment suitable to the long-term survival and ‘evolution’ of the US, the MITCIS set out to identify strategic factors or elements to modify. Milikan expanded on this point, noting:

By a strategic factor - (cultural, institutional, ideological, or administrative) - we mean both one that has an important effect in causing political and economic changes and one that can be influenced by the conscious policies of the governments of the countries, of the American government, of private organizations, or of international agencies.

The strategic factors outlined by Milikan were also factors that affected commercial bank operations and the growth of the bank credit card. As Chapter 4 outlines, these factors and attempts to change and influence government policies became an important element of bank management practices beginning in the 1960s.

As development historian Zaheer Baber highlights, attached to the vision defined by Milikan was the overarching goals of integrating populations outside the United States to the American value system and in the process develop “viable energetic, and confident societies through the Free World.”

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264 Ibid., 30.

265 Ibid.

266 Baber, “Modernization Theory and the Cold War,” 80.
modernization projects represented the US attempt, led by expert social scientists, to manufacture environments amenable to the profitable and secure future for US government and private interests.

In 1953, German philosopher, political scientist, and modernization theorist Karl Loewenstein, to facilitate the implementation of these projects, used ‘infrastructure’ in relation to political systems. As economic historian Mark Berger explains, “Loewenstein argued that political scientists should dispense with any narrow focus on the state and become “a conscious instrument of social engineering” for “imparting” the US “experience to other nations.” Berger argues that Loewenstein represented a wider push by modernization scholars to move away from narrow conceptions of the state towards a view of the state as a political system. Loewenstein defined political systems as the “totality of sociopolitical phenomena prevailing in a specific state,” distinguishing the term from political regimes or patterns of government. Political systems represented a much more environmental understanding of politics and governance.

Loewenstein was interested in theorizing the role of ideology in the formation and operation of political systems, and claimed that it was “political ideology which actually conditions the function and shapes the operation of the political institutions and techniques.” As a result, Loewenstein argued that political systems required what he referred to as ‘ideological infrastructure’ or the ‘social knowledge’ that is disseminated en masse by state institutions to the public. Loewenstein’s arguments reveal early connection of the term infrastructure to a more environmental understanding of politics and the attachment of social values to its definition, highlighting the natural-cultural dimensions of the concept. With regards to the bank credit card infrastructure, Chapter 6

268 Ibid.
269 Karl Loewenstein, “Political Systems, Ideologies and Institutions: The Problem of Their Circulation,” Western Political Quarterly 6, no. 4 (December 1, 1953): 689.
270 Ibid.
271 Ibid.
details how bank lobbyists set out to enroll congressional leaders and the public into a ‘ideological’ infrastructure informed by the Chicago School of economics translations of the economy. Chapter 6 demonstrates how this enrollment process helped to shape the government institutions and regulatory techniques in place to oversee the US financial system. With regards to modernization efforts, as other historians have noted, these social scientists viewed foreign nations as laboratories for their project.272

3.3 Infrastructural Experiments

One of the early laboratories for modernization social scientists was South Asia. Interest in South Asia intensified after the Chinese Revolution in 1949, which was viewed by the Truman administration and major private foundations such as the Ford Foundation as a major loss.273 In India, the Truman administration saw a significant opportunity to contain communism. However, early development efforts failed to produce the economic development sought by the modernization social scientists, as poverty and instability beset the country throughout the 1950s in the wake of the break with colonial rule.274 These failures led to several efforts by both the Eisenhower and Kennedy administrations to develop and implement five-year development plans to successfully modernize the region.

In the Second Five Year Plan instituted in 1958, the International Monetary Fund shifted its development priorities, applying a greater emphasis on industry and transport, and public investment on ‘economic infrastructure.’ The IMF defined economic infrastructure “as transport, power and irrigation, and basic industry, which is necessary for further sustained growth in production and cannot be adequately undertaken by the private sector.”275 The public investments in the Second Plan were aimed at improving the

273 Baber, “Modernization Theory and the Cold War,” 74.
274 Latham, The Right Kind of Revolution.
logistics behind the extraction of products such as iron, steel, heavy chemicals, cotton, and sugar. The IMF argued that improving resource-extracting logistical capacities would draw in foreign private capital investment to India and purportedly allow for the growth of the Indian economy, raising the living standards of this ‘underdeveloped’ nation.276

By the mid to late 1950s, ‘infrastructure’ also acquired its social dimension in development projects and became referred to as ‘social infrastructure.’ In 1960, George Davidson, President of the United Nations Economic and Social Council, claimed that social development had to be distinguished from economic development. Davidson defined social development as the “movement and progress – a dynamic process of evolution and growth – directed towards the achievement of desirable social goals.”277 These goals included improving the health of the population, and increasing employment and housing. Davidson argued that an essential element of social development was an ‘infrastructure and superstructure’ of “social policies and programs which alone can assure the maintenance and improvement of family and community levels of living and lead to social progress.”278 Social development required the manufacturing of an institutional environment based on American social values. Chapter 7 describes how representatives of the bank credit card associations framed bank credit cards as providing governments and consumers with an accessible payment infrastructure and the means to achieve desirable social goals of consumption – consumption that they argued fueled economic growth and consumer wellbeing.

Davidson’s outline of social development came only months before the International Cooperation Administration requested $5 billion from the State Department to support the “social infrastructure” (quotations marks included in original) of ‘underdeveloped’ nations.279 The $5 billion was to be spent on “housing, agricultural extension projects, 

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276 Ibid.
278 Ibid.
279 “5 Billion Urged For Foreign Aid; Huge Rise Being Discussed With New Approach Toward Under-Developed Lands,” The New York Times, November 8, 1960,
agricultural credit, education, and health.” The inclusion of social dimensions to infrastructure highlights the long history of infrastructure serving as concept attached to the future promises of social welfare and economic growth.

As this section detailed, both social and material ‘infrastructures’ served as central mechanisms for this modern ‘systemic’ or environmental form of politics. They were a crucial element in planning and making a post-war world that sought to secure a convergent capitalist order through the promotion of a ‘social infrastructure,’ while also ensuring that these spaces had the logistical capabilities to attract western financial investment and facilitate resource extraction. Building on this understanding of the history of infrastructure, the remainder of the dissertation outlines how bank officials and bankcard executives pre-emptively set out to alter the spheres that comprised the US financial system. As a result, it illustrates how the ‘social’ component of ‘infrastructure’ was essential to cultivating a banking ‘environment’ amenable to the long-term growth and survival of the bank credit card infrastructure.

The discussion of this chapter has so far only focused on the genealogy of the concept of infrastructure as it was deployed outside the United States, within a foreign security and development context. The last section of this chapter focuses on the first use of the term ‘infrastructure’ in a domestic American project. A lot of informative scholarship has been done on what are now termed critical US infrastructures built in the postwar period, such as the Interstate Highway System and data infrastructures. However, while these histories often deploy infrastructure to describe these material assemblages, it is


280 Ibid.

important to remember the term itself was often not used in the early or initial planning, development or construction of these systems. We have come to retroactively name such material assemblages as self-evidently infrastructure. For instance, an editorial published in February 1965 in the Lubbock Avalanche-Journal highlights the continued lack of familiarity with the term ‘infrastructure’ within the United States. In the editorial the author states,

…A dispatch to the Dallas News from Managua, Nicaragua, says that anyone wanting to talk about under-developed countries and sound like an expert must learn the word the experts are using, "infra-structure.” What the word seems to mean is those things necessary to economic development of a nation, or an area, which an individual enterpriser or a nation cannot hope to provide alone.  

This attachment of infrastructure to economic development (not physical installations) remained in its early deployments within US projects. In fact, the first appearance of the term infrastructure for a domestic US project was in relation to regional economic development programs. According to historian Julian Zelizer, regional economic development fit with the wider modernization goals of postwar liberals to,

…create programs that would help more Americans enter the middle class and to tackle structural problems that existed in good times and bad—racial inequality, inadequate health-care coverage, underfunded education, urban decay, and chronic poverty—but could best be addressed when the economy was producing economic rewards for a majority of the workforce.  

This is exemplified by the fact that ‘infrastructure’ in the United States was first used to describe development efforts in poverty-stricken regions such as Appalachia.

In February 1965, the Senate passed a $1.1 billion aid package for Appalachia as part of President Johnson’s War on Poverty inaugurated a year earlier. Historian Alyosha Goldstein claims that Appalachia became a focus of the ‘War on Poverty’ to highlight the non-racial character of poverty, bringing attention to the situation of poor whites in that

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region. Appalachia was also a focus of regional economic development within the United States because it also became perceived as a ‘colonial economy’ thanks to the work of C. Vann Woodward that was later carried on by other scholars. The Johnson administrations aid package to Appalachia aimed to demonstrate the systematic and colorblind nature of poverty.

The Appalachian Regional Commission, a joint Federal-State organization, was given the complex task of executing the provisions outlined in the act. Harry Boswell, the official representing the States on the Appalachia Regional Commission, was the first person to use the term ‘infrastructure’ in The New York Times in reference to a domestic US project. Boswell in an interview with The New York Times claimed that "the toughest part of this program is going to be deciding where the growth centers are... there is no large city of center of "infra-structure" across the entire Northern stretch of Pennsylvania from the Scranton Wilkes-Barre to Erie." Infrastructure in this context referred to the logistical and social systems considered necessary to stimulate the economic development of the region. However, economic development in the region was complex.

The complexity of economic development in the area was due to its economic makeup, with “Coal Appalachia” accounting for 21% of the geographic area of the region and “Industrial Appalachia” accounting for 60% of the regions population. As a result, the Commission was responsible for the long-range development of the region with a “primary focus…on infrastructure.” Infrastructure referred to the $840 billion earmarked for the construction of 2350 miles of highways and 1000 miles of local access roads, as well as $41 million for hospital construction, $16 million for vocational

285 Ibid., 172.
286 Ibid.
289 Ibid.
education schools, and $6 million for sewage treatment. As the Appalachian infrastructure project highlights, ‘infrastructural’ investment was largely designed to integrate impoverished communities into the formal national economy while also supporting the extraction of resources from these communities.

Despite funding to build this critical infrastructure in the Appalachian region, the efforts to instigate economic development in the region and highlight the colorblind nature of poverty backfired. As Goldstein explains, “the Appalachian poor threatened to call attention to the presumption of white privilege—in other words, how could it be that these people are poor, when as white people they should be able to access racial entitlement?” Conservative politicians such as Barry Goldwater and George Wallace worked to undermine the efforts of long-range planning by inflaming this racial backlash. The resistance to the infrastructure projects in Appalachia highlights a wider resistance movement to regional economic development and infrastructure projects in the 1960s. It also highlights the racial politics of poverty, which, as Chapter 7 shows, became essential to the efforts of bankcard associations officials to democratize and legitimate bank credit cards in the late 1960s and early 1970s.

The resistance to ‘built environments’ designed and planned by expert social scientists also led to the eventual deregulation and privatization of some of the ubiquitous institutional and technological systems comprising these environments. As historian Mark Rose explicates, in the early 1960s policy activists challenged the ideas and practices of the US highway-building regime instigated by the introduction of the Interstate Highway System in 1956. These activists objected to the money spent on the construction of roads that “served mostly white motorists but that displaced mostly black householders and neighborhoods.” It was during this time frame that environmental

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activist also began to voice their concerns over air pollution and the construction of roads and destruction of parks, rivers, and deserts. These activists helped to establish a resistance to the Army engineers’ claim of apolitical expertise. It was a rejection of government efforts, as Ted Porter explains, “to redefine cost-benefit research according to the standards of economists.” Chapter 5 demonstrate how these calculative infrastructure-planning practices were taken up by commercial banks and how bankcard associations also criticized government investment in ‘infrastructure.’

As exemplified with Visa’s framing of VisaNet provided in Chapter 2, the conceptualization of infrastructure utilized in the Appalachian development project informs the practices and strategies that support the bank credit card infrastructure. Visa, as described in Chapter 2, claimed that VisaNet helps to connect local economies with national economies and even connect these communities to the larger global economy. Also, Visa, much like these infrastructure programs, markets VisaNet as a tool for federal or state governments to integrate populations operating in informal economies to the large national economy. Visa’s framing of its VisaNet cyber-infrastructure in this manner reveals not only the relationship between the bank credit card infrastructure and these ‘infrastructure’ project but also that the bank credit card is more than just a plastic payment device. Instead, the bank credit card represents an ‘infrastructure’ with very definite social as well as technological, political, economic, and legal components. However, as this section and the next highlight, the rise of the deregulation and privatization movements coincided with the emergence of the postwar conceptualization of infrastructure. These movements, as further outlined in chapters 5, 6, 7 and 8, are critical to understanding the cultivation of the political, legal, and economic environments needed for the rapid growth of the bank credit card infrastructure after the mid-1960s.


3.4 Infrastructure and Deregulation

The privatization of payment services and the deregulation of the financial industry is a complex history. Despite this complexity (detailed in Chapter 5 and 6), the history of the privatization and deregulation movements in banking aligns very closely with the calls for the privatization and deregulation of other public services and utilities. According to Science and Technology Studies scholars Simon Marvin and Stephen Graham, what white, environmental, anti-racist activists resisted beginning in the early 1960s was the ‘modern infrastructural ideal’, which they situate as a governmental strategy that stretched from 1850-1975 and saw government’s attempt to introduce and universalize – in an often-uneven fashion – public utilities.  

Marvin and Graham suggest that these critiques helped lead to the eventual collapse of the infrastructural ideal, and brought about calls to privatize and deregulate existing systems. They claim that arguments against the infrastructural ideal led to the unbundling, or deregulation and privatization, of infrastructure.

Other historians point to the rise of a bipartisan coalition in the 1970s that presented the government as inefficient and favored deregulation. As later chapters describe, banks and credit card associations were instrumental in deregulating the US financial system and privatizing the payment infrastructure. However, the seeds for these arguments against the ‘infrastructural ideal’ emerged, as Rose demonstrates, before the 1970s. The economic arguments against government investment in infrastructure projects were presented as early as 1965 at the ‘Second International Symposium On Theory and Practice in Transport Economics.’

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297 Graham, Splintering Urbanism.

298 Ibid.

The Symposium was part of the European Conference of Ministers of Transport, which was composed of 18 European nations including Germany, France, Italy, Austria, Ireland, and Spain. Established in Brussels in 1953, the conference had two objectives. The first was to undertake any measures necessary to realize the best use and most rational development of domestic transportation systems within Europe. The second was to “co-ordinate and promote the work of international organizations interested in European inland transport in view of the activities of supra-national authorities in this field.” At the 1965, Dutch economist Conrad Oort presented a serious challenge to public investment in infrastructure.

Oort presented on the topic “Criteria for Investment in the Infrastructure of Inland Transport” and claimed that the best possible infrastructure program was one that could project to meet future expected demand, and take into account facilities that are or will be available in the near future. However, Oort argued that because infrastructure investment placed future demand as a focal point in its criteria, the forecasting of future demand made planning a near impossible task for governments. Oort, presenting a Chicago School translation of the economy, claimed that unlike competitive sectors of the economy, where the forces of the price mechanism continuously induce modifications to existing networks and systems to meet demand, “in the case of infrastructure, this type of adjustment is virtually impossible.”

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301 Ibid.
302 Ibid.
303 Ibid.
304 Ibid., 11.
305 Historian of neoliberalism Daniel Stedman Jones explains that Chicago School economists translated the economy in a way that suggested that “the price mechanism operated as an information processor that sent unique, comprehensible signals to producers and consumers that were impossible for [government] planners to replicate,” Daniel Stedman. Jones, Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics (Princeton: Princeton University Press, 2012), 3. European Conference of Ministers of Transport Symposium international sur la
Oort claimed that the failure to adjust with market demand was due to three underlying characteristics of infrastructure. The first was its economic indivisibility, which referred to the fact that “once a project has been constructed it is costly to change the dimension...Adding or reducing capacity at a later date is far more costly than increasing the capacity at the moment of construction.” Whether demand increases or decreases, these concrete installations are not liable to change. Second, infrastructures were assets that had a long physical life; they were mostly expensive concrete installations. Finally, infrastructures were geographically bound and often required unique construction efforts due to this geographic specificity.

Demand - like the future - was uncertain, but what was certain was that government infrastructures were geographically bound, difficult to modify, and long-term concrete installations. Due to these characteristics, government investment in infrastructure faced the issue of formulating an adequate cost-benefit analysis to justify investment decisions. Specifically, governments – unlike private interests - needed to devise a cost-benefit analysis that could gauge the social costs and social benefits of these projects. Social benefits, now attached to the concept of infrastructure, were not easily quantifiable and viewed as matters of discretionary judgment, which left planners with the pressing question: who decides?

Increasingly seen as inflexible, governments were characterized by proponents of deregulation and privatization as incapable of meeting changing demands. The last recourse for governments was to rely upon perceptibly objective decision-making devices such as cost-benefit analyses to justify their infrastructure investments. However, Oort

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307 Porter, Trust in Numbers, 188.
and the other experts at the symposium bemoaned the fact that benefits from public investments could not be reflected in market prices. Benefits such as clean air, water, and recreation were not easily individualized, and therefore it was difficult to assign them an agreed upon financial value. With demand holding a preeminent place in government infrastructure planning, price came to serve as its objective measure. This rendered social cost-benefit analysis both powerless and an impossibility. Social values, now attached to infrastructure, were not easily individualized and translated into the price form. The inability to convert these values into the price form meant that governments did not have a useful tool to justify their infrastructure planning decisions and investments. As Chapter 5 details, bank credit card association executives presented this argument against government investment in infrastructure in the mid 1970s in an effort to maintain the private nature of the credit card payment process.

As this section highlighted, the combination of social values and economic development that became attached to the concept of infrastructure allowed for criticisms of a government’s ability to execute plans for the long-term future that met public demands and needs. The apparent apolitical technocratic expertise of government planners could be questioned by critics due to their inability to quantify the social values attached to infrastructure projects. As the remaining chapters demonstrate, the development of the bank credit card infrastructure emerged during this period of increased scrutiny on US infrastructure investments and the demand to privatize and deregulate large-scale ubiquitous systems.

3.5 Conclusion

The chapter, through tracing the genealogy of infrastructure, works to provide a foundation for the remainder of the dissertation to demonstrate that the socio-technical arrangements supporting the formation of a bank credit card infrastructure emanated from NATO military planning and US government foreign development efforts. NATO’s

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308 European Conference of Ministers of Transport Symposium international sur la théorie et la pratique dans l’économie des transports Deuxième symposium international sur la théorie et la pratique dans l’économie, 149.
introduction of the word ‘infrastructure’ into Western discourse did more than just provide a name to the concrete ‘lifelines’ that undergird our everyday life. The ‘infrastructure’ program was as much about finance and planning, as it was the construction of concrete military installations. At its core, it named a budgeting, coordinating and forecasting long-range planning program that was inextricably linked to security and finance. These practices were implemented to help NATO meet the two objectives of the ‘infrastructure’ program, security and economic growth.

The two primary objectives of the program reveal that the discursive introduction of ‘infrastructure’ was reflective of a postwar environmentality. Environmentality shifted government attention away from disciplinary measures towards a focus on pre-emptive ways to modify the ‘environment’ to promote a convergent order and create opportunities for value creation. The infrastructure program, led by SHAPE, reflects the emphasis placed on building up the supra-national environments through the construction of the logistical systems of allied Western nations. The emphasis on the logistical systems supporting Western defense helped to move the understanding of military strength away from the variable divisions or squadrons towards the fixed installations supporting security and economic growth.

This chapter also explained how infrastructure came to serve as an important concept in postwar development and modernization efforts. Social scientists at the center of US modernization efforts reworked classical liberal metaphysical understandings of being, promoting a more systematic and ecological approach to understanding society. As a result, the US government sought to not only build material assemblages, but, crucially, also the cultural, social, political, economic, and legal frameworks they believed necessary to aid the modernization of ‘underdeveloped’ nations. The work of modernization theorists highlights both the abstractions and material assemblages of ‘infrastructure,’ and the efforts to produce US inspired ‘inhabitable grounds.’ It also reveals how macro-environmental analysis became a core component of governmental analysis and a means to justify government intervention. The work of modernization theorists, coinciding with the work of military planners and officers, was crucial in the
development of what Foucault referred to as ‘environmentality.’ This work also highlights the connection between ‘environmentality’ and ‘infrastructure.’

‘Infrastructure’ was not just part of American empire, it also entered into US domestic infrastructure programs. The chapter pointed out how the first use of infrastructure was in relation to regional economic development programs in communities that were framed as having colonial economies. However, these projects came under immediate scrutiny, as the social development and values component of infrastructure added by modernization theorists, drew the ire of poor white Appalachians, Republican politicians, and economists that favored the privatization of infrastructure. The resistance of these Appalachians to the social development values attached to infrastructural investment highlights the complicated rise of resistance to government infrastructural investment during the 1960s and the turn to privatized and market based versions of infrastructure.

For instance, the economist Conrad Oort claimed that the economic indivisibility, permanence, and geographic boundedness of infrastructure made sound government investment in infrastructure projects nearly impossible. Oort along with the rise of “neoliberal” experts in attendance helped to validate the presumption that government cost-benefit analysis, and thus decision making, was flawed due to the inability to put a price on social values and benefits. As a result, European, as well as American, government investment in infrastructure projects became controversial, as they were perceived as not economically justifiable. The validation of government inflexibility spurred calls in the United States for ‘smaller government,’ the sale of formerly public utilities, and decreased regulation.

It was in both this security and banking environment that the bank credit card infrastructure emerged, and the story the rest of the dissertation tells unfolds. The work of American historians, historians of science and business historians provides critical insights into how infrastructure planning in the United States during the postwar period cultivated the critical environmental conditions necessary for the emergence of the bank credit card infrastructure. While commercial bank officials and payment corporation executives did not utter the word ‘infrastructure’ in the formative years of its
construction, as the remaining chapters illustrate, the techniques and rationalities that influenced the postwar conceptualization of ‘infrastructure’ are found in the discourse of these banking and payment officers. This argument echoes the point raised by Collier and Lakoff that the techniques and rationalities that connected infrastructure, the economy, and national security made their way into industrial practices in the postwar period. The chapters also highlight how the construction and debates surrounding postwar infrastructure projects would come to inspire and produce a political, social, technological, legal, and economic environment amenable to the growth and development of the bank credit card infrastructure.
Chapter 4
Planning Profitable Futures

4  Planning Profitable Futures

On March 1st, 1967 the Federal Reserve announced that they were going to conduct a yearlong study of the bank credit card. With 5.1 million active credit card accounts and over $600 million in credit outstanding, the study was brought on by the incredible rise in popularity and notoriety of this credit device.\(^{309}\) In July 1968, the Federal Reserve published their bank credit card study. In their final report, they noted that the installation of bank credit card divisions in banks was not exclusively about immediately maximizing bank profits. They discovered that many commercial bank officers had not even weighed the current profit potential of these credit devices when they entered the market. Their decision to open credit card divisions rested on a presumption of the ‘shape of things to come.’ As a result, the Federal Reserve’s report concluded that the incredible rise in bank credit card operations was an “outgrowth of changes in the orientation of bank management.”\(^{310}\)

This chapter provides some more historical context, with a focus on bank management practices, to help explain the changing conceptions of risk in the postwar period. Geographer Paul Langley argues that postwar world saw the “deployment of a panoply of risk management techniques and tools in order to render the future actionable in the present.”\(^{311}\) As mentioned in Chapter 2, sociologist Donncha Marron and STS researcher Martha Poon have traced the introduction of credit scoring tools and techniques. Marron and Poon both highlight how military-inspired techniques reflected a change in the perception of risk amongst lenders from one of risk avoidance to perceiving potential

\(^{309}\) Board of Governors, “Bank Credit Card and Check-Credit Plans: A Federal Reserve System Report” (Federal Reserve, 1968), Box 1120C, LBJ Library.

\(^{310}\) Ibid.

profit opportunities in lending to ‘riskier’ populations. Sociologist Randy Martin’s work shows that this perception of risk fits with the rise of finance, which worked to divide “the world between those able to avail themselves of wealth opportunities through risk taking and those considered at risk.” Finally, geographer Mark Kear’s work has illuminated how finance has helped to instil a distributional type of politics that produces and cultivates ‘risky’ populations in the name of providing these groups with perceptibly affordable credit.

This chapter contributes to this work by describing the crucial change in the orientation of bank management that helped to instigate the mass entry of banks into the credit card market. It demonstrates that this change in management orientation was due to the integration of particular planning techniques into American bank management practices. Moreover, the chapter claims that consultants and planners using military-inspired planning techniques helped convince bank executives that they needed to adopt risky programs such as bank credit cards, which were largely unprofitable, to survive in an increasingly automated future banking ‘environment.’

Planners helped bank managers and executives in their decision-making by using techniques that provided macro-environmental “scans” of the business ‘environment.’ Such planning techniques promised to provide bank managers and executives with the tools – based on probabilistic forecasts of the future – to both anticipate future uncertainties and take on more significant financial risks. Planning tools included linear regression analysis and statistical bank models that gave bank managers and executives three to five-year forecasts of bank expenditures and revenues. These tools combined into ‘bank plans’ that helped to organize bank budgeting, accounting, and investment programs. As this chapter emphasizes, one of those investment programs was the bank credit card. These techniques, in widespread use in banking by the mid-1960s, helped to

312 Marron, “Lending by Numbers”; Poon, “What Lenders See –.”
313 Martin, An Empire of Indifference, 8.
not only instigate the entry of a series of American banks into the credit card market, but also helped to guide the internal operations of these departments. Bank officials called upon this new breed of planner to run their credit card departments due to their profit orientation and comfort handling the permanent indebtedness of cardholders.

In order to connect macro-environmental scans to commercial bank management decision-making, this chapter highlights the relationship between Citibank and TEMPO – GE’s consulting firm. In the case of Citibank, planners at TEMPO insisted that the bank’s survival in the 1960s banking ‘environment’ entailed not only the recognition of changes to the technological but also the social and economic business ‘environment.’ TEMPO planners instructed Citibank to focus on automation and the retail banking market, transferring some of the focus of their lending efforts from business to consumer lending. TEMPO planners pinpointed the bank credit card and the development of an automated payment processing system as the best means for Citibank to survive in the increasingly automated future banking environment they forecasted. The chapter illustrates that within American commercial banking planning remained attached to securitization and finance.

As the previous chapter summarized, long-term planning was a core element of the new defense philosophy of NATO and the alliance’s goal of securing the future of pro-capitalist nations during the Cold War. This long-range future-oriented defense philosophy helped inform and guide NATO’s ‘Common Infrastructure Program’ and U.S. modernization efforts in ‘underdeveloped’ countries. Long-range infrastructure planning exemplified a postwar security technique in its military, international modernization, and regional economic development contexts, and demonstrated the complex power relations attached to this inextricable link between security and finance. Building on this insight, this chapter claims that similar long-range planning techniques implemented at commercial banks also reflected the environmentality that guided these postwar defense and modernization philosophies. However, the chapter begins with a discussion of how by the mid-1960s bank management practices were beginning to change.
4.1 The Post-War Banking Environment

As the second chapter detailed, the postwar banking environment involved the increased indebtedness of Americans. At the same time, early bank credit card programs experienced many failures. Despite these attempts to enter the bank credit card market, the tight federal and state regulations placed on banks made banking a conservative or “boring” business.\(^{315}\) Banking during this period was largely a day-to-day business that was principally a transaction-oriented and people-intensive operation.\(^{316}\) Bank managers, in the wake of the Bank Acts, strove to maintain public confidence by preserving liquidity and earning satisfactory returns.\(^{317}\) Thankfully for bankers, in the immediate post-war era, banks saw a sharp rise in the returns on their loans and investments.\(^{318}\) However, the bank managers’ conservatism, lack of attention to cost controls, and aversion to risk soon came under intense scrutiny.

In the late 1950s questions began to surface about the orientation of bank management. Management consultant Robert McMurry claimed in 1958 that a bank needed to “become more dynamic and aggressive. It can no longer survive on its dignity as an ‘institution’.”\(^{319}\) Due to increasing operating expenses, including ‘personnel problems,’ between 1960-1963 banks experienced a sharp decline in their profit margins.\(^{320}\) Operating expenses continued to rise more rapidly than revenues to the point that by the


\(^{317}\) Ibid.


mid-1960s costs were taking up over 70% of earnings, shrinking the average profit margin of these corporations to 28%.  

Bank managers often identified the problems outlined in the second chapter, namely the inefficient operating procedures with the processing of checks and sales slips, and a supposed lack of qualified computer personnel as leading factors in the declining profit margins.

To counter this decline, managers resorted to shrewd cost-cutting measures such as reducing office supplies, electricity usage, and the number of long-distance phone calls made. The most popular cost-cutting practice was the increased automation of operations and installation of work measurement programs for the clerical staff working with and operating this new equipment. The rise in costs and reduction in profit margins left bank management and shareholders feeling increasingly dissatisfied with earnings that were passable, but smaller than the profits in other industries. Given this predicament, by the mid-1960s - around the same time that banks entered the credit card market en masse - consultants were declaring that an evolution in bank management was underway.

In 1965, Thomas Reeves of McKinsey & Company Inc., one of the largest management-consulting firms in the world declared that “the better-performing banks are achieving their success through the application of proven management principles and practices that have long been widely accepted in manufacturing industries.”

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324 Ibid.
325 Adams, “Answering the Big Question Confronting Bankers,” 41.
expert advisor for the firm, Reeves claimed that bank managers across the country were ‘on edge’ due to the introduction of electronic data processing technology, the possibility of a ‘cashless society,’ and searching for innovative ways to apply this new technology. According to Reeves, finding ways to cope with an automated banking environment was the greatest challenge that faced bankers. Reeves asserted that these new technologies had forced a change in the orientation of bank management. It summoned a desire in large banks to aggressively pursue automation as well as products and services amenable to automation such as credit cards, believing that the banks that adapted and innovated their services the quickest could gain a greater share of the banking market and increase their chance of survival. According to Reeves, these were the ‘top-performing’ banks and “bank performance primarily reflect[s] the caliber of bank management.” For the other banks, Reeves wrote that one of the industry’s most pressing needs was to develop “a greater profit consciousness.”

The call for a greater ‘profit consciousness’ was a direct indictment of conservative bank practices. Reeves stated that banks were overly reliant on traditional expense management approaches that overlooked opportunities for innovation and ways to “pare away waste and duplication” in their bank’s operations. Reeves encouraged bank managers to shift their focus from staff (the duplication) to building up their automation capabilities. Reeves acknowledged that for bankers “the adoption of a profit-oriented approach…can be a difficult and painful process… but as the top performers have proved, bankers can be managers.” According to Reeves, to become a manager bankers had to embrace marketing, cost control measures, and adopt strategies for implementing computers into their operations. Many of the corporate techniques guiding

327 Ibid.
328 Ibid.
329 Ibid.
330 Ibid.
331 Ibid.
these three proposed changes to bank management, outlined by Reeves, had already been developed and applied in other industries.

Three years after Reeves article in *Banking*, Everett Smith, a Director at McKinsey, claimed that banking had transformed in the postwar era from a business that generated its profits from the spread in interest rates to the collection of fees. According to Smith, banking was now a financial service industry requiring a new management orientation. To prosper in the new financial service industry, Smith argued that banks needed to adopt the organizational principles and management techniques employed by leading industrial enterprises. Specifically, Smith pointed to cost management, profit planning, and budgeting techniques as useful for banks in an increasingly competitive and aggressive banking ‘environment.’ With banking transitioning into a financial service industry, reliant on fees, technologies of risk, such as planning techniques, offered to provide bank managers with a sense of security in their ability to adapt to the new banking environment, and hence as their firm’s ability to take on the future risks associated with this automated environment. It also convinced banks to enter into the credit card market.

This section described how bankers were becoming managers or corporate officers deploying the budgeting, strategy, personnel, and technology strategies and techniques applied in other industries. Consultants at McKinsey attached this shift from ‘bankers’ to ‘managers’ to a new profit ‘orientation’ within banking and the transition of the business towards becoming a financial service industry. As the following sections emphasize, the transformation of banking into a financial service industry and ‘bankers’ into ‘managers’ was crucial to the operation of bank credit card departments. These new departments

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required technicians both skilled and comfortable with handling higher-risk customers and providing a financial service that could potentially place these consumers into a state of permanent indebtedness. The next section details the history of planning in American corporate practices, highlighting its connection to a postwar environmentality. This brief history illustrates how environmentality came to represent this change in the orientation of bank management and how it convinced commercial banks to enter into the bank credit card market.

4.2 A Brief History of Planning in American Business Management

Surveys conducted by Business Week and the Stanford Research Institute in the 1950s showed that corporations in the post-war era were placing increased emphasis on a systematic form of ‘long-range planning’. In the immediate postwar period, large corporations took up a form of systems thinking influenced by the work of the same social scientists leading the military planning and modernization movements. Multi-national corporations such as General Motors, DuPont, Standard Oil, and Siemens were implementing data analysis, gaming, and modeling techniques alongside a more decentralized and flexible management structure. Other organizations such as the Rand Corporation innovated the management science, operations research methods, and


systems analysis approaches born out of the military science conducted during the Second World War.  

Management scientist David Cleland argued that calculative long-range planning techniques after World War II gained popularity within American management because corporations increasingly came to embrace the necessity to assume “even greater risks” to remain competitive.  

To famed management consultant Peter Drucker, long-range planning was the tool that could provide management with this desired ability to take on greater risks. Drucker referred to long-range planning as “risk-taking decision making.” Long-range planning was meant to provide corporate executives with a sense that they could “choose among risk-taking courses of action rather than plunge into uncertainty on the basis of hunch, hearsay or experience.”

According to Drucker, the rational forecast provided by planners was more accurate than a hunch, hearsay, or even previous experience in projecting future events or trends, and ultimately provided managers with the “capacity to take a greater risk.” The desire by corporate actors to take on greater risk to secure the future of their firm reflects the relationship between planning and security. Drawing from Foucault, de Goede argues that security is a focus of governance and encompasses technologies of risk. These technologies of risk work on the future and relate a nation’s present state of security to a series of probable future events. The goal of risk technologies is to maximize positive elements and minimize what is risky and inconvenient.

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339 Thomas, *Rational Action*.
342 Ibid., 240.
343 Ibid.
In this spirit, Planners used statistical procedures and techniques to provide their clients or firms with a set of probable future events that aimed to maximize positive elements and minimize poor risks. As Cleland explained, long-range planning was a scientifically derived procedure utilizing statistical methods and techniques.\(^{345}\) As a result, Cleland claimed that planning was

…much more than business forecasting which involves trends and projections; it goes further by helping management to determine how to take advantage of the trends, how to minimize the effects of unfavorable trends, and how to attain full realization of the organization’s service objectives.\(^{346}\)

To determine these trends, long-range planners had to gather and analyze an array of economic, technological, political, social, and market data. With this data in hand, planners worked to produce a future forecast of business conditions, project the number of resources needed to meet the company objectives set by executives, and provide these executives with multiple possible courses of action they could undertake to realize their goals. To accomplish this task, planners had to “scan” the business ‘environment,’ which is the relentless acquisition of information on a business’s milieu to inform management decision-making.

In 1958, Peter Drucker claimed that much like a biologist “developed the approach to understanding of “systems” by means of defining ‘essential survival functions,” the same must be done to grasp the corporate system.\(^{347}\) Like biological systems, to understand the corporation Drucker argued that managers had to think of survival functions “the way biologists talk about ‘procreation’ as a ’function’ essential for the perpetuation of a living species.”\(^{348}\)

Drucker proposed five survival functions that were general to all corporations but also were applied and experienced in uniquely different ways. The survival functions

\(^{345}\) Cleland, *The Origin and Development of a Philosophy of Long-Range Planning in American Business*.

\(^{346}\) Ibid., 3.


\(^{348}\) Ibid.
to facilitate the perpetual survival of the enterprise included the recognition that corporations did not exist in a vacuum and were ‘creatures of the economy’. Drucker added that this recognition should compel managers to “attempt to anticipate the future social climate and economic policy, while organizing the firm’s behavior to create economic and social conditions that are favorable to the survival of the enterprise.”

Drucker also claimed that corporate managers needed to recognize that the purpose of the corporation is “to produce change in a changing economy with changing technology.” However, Drucker argued that the most important factor to ensuring the survival of the firm is profit.

Drucker claimed that profits are essential for survival not because it feeds the greed or self-interest of shareholders or management. Much like Parsons’ work that inspired modernization theory, Drucker’s work reinforced the view that the self-interested liberal subject was a relic of the older metaphysical classifications of being. According to Drucker, the need for profitability was considered objective, independent of individual motives or the structure of capitalism. Instead, profits where necessary to the survival of the firm because they helped to secure the future operations of the firm in its risk environment. Profit maximization was no longer the most important objective of this proposed management framework. The more pressing question for management is, “What minimum does the business need?” to survive. To answer this question required information.

In the mid-1960s, for his doctoral dissertation, Harvard Business School Professor Francis Aguilar set out to study the corporate strategy practices of chemical company managers and executives in the United States. The results of this survey of corporate managers and executives were published in his book *Scanning the Business Environment*,

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349 Ibid., 85.
350 Ibid.
351 Ibid., 86.
352 Ibid.
353 Ibid., 87.
which helped to formalize macro-environmental scanning techniques. Aguilar discovered in his research that corporate executives were increasingly emphasizing scanning, which Aguilar translated as the “activity of acquiring information.” Information within this context was considered important for making decisions about future long-range plans and devising strategies. The notion of corporate decision-making, moreover, was greatly influenced by information scientist Herbert Simon, who compartmentalized decision-making into POSDCORB (Planning, Organizing, Staffing, Directing, Coordinating, Reporting, and Budgeting).

Aguilar claimed that the scanning process provided the managers and executives he interviewed with the knowledge that would help them chart their company’s future course of action and decision-making. Management decision-making and scanning were essential to corporate strategy, which Aguilar defined as:

…an integrated and harmonious pattern of objectives which are of fundamental importance to the long-term survival and health of a company. As such, strategy defines the company’s basic image, purposes, fields of present and future activity, and expected future position in these fields. Strategy should be responsive to both the risks and opportunities confronting the company in its external environment and the strengths and weaknesses – present and potential – within the firm itself.

Strategy, with its focus on risks and opportunities, represented a security technology for corporations. With this notion of strategy in place, Aguilar argued that firms recognized that their management orientation had to increasingly move away from a focus on “the immediate areas in which the company competes.” Instead, management had to look towards the “industry as a whole, and thence to the aggregative and general economic, technological, political, and social spheres.” These domains made up the business environment and required management and executives to scan these domains for

355 Ibid., 2.
356 Ibid., 4.
357 Ibid., 9.
358 Ibid.
information to help with their decision-making practices. Inherent in these decision-making practices were complex “environmental” power relations, or the struggle by managers and executives to alter variables within these domains to secure the future of their firm through the production of profit.

Corporate strategy, as detailed in Aguilar’s postwar survey of American corporate executives, both emphasized the need for and sought to facilitate pre-emptive action on these domains that comprised the ‘business environment.’ Drawing from Alfred North Whitehead’s work on foresight, Aguilar claimed that due to the increasing rate of change, “top management can no longer simply cope with conditions; it must deal with a change of conditions. The art of learning and the attitudes of adaptiveness and flexibility have assumed major importance for top management.” However, Aguilar cautioned his readers that scanning, despite its effort to gather information on these external spheres, was an incomplete and imperfect process due both to human limitations and because the “relevant world is far too extensive and complex ever to be completely summarized.”

The notion of a business ‘environment’ reflected the broader shift in social science in the postwar period towards systems analysis that many historians have traced. The business environment served as a useful metaphor for the varied systems, functions, organizational arrangements, operational and decision-making processes of a corporation. Infused within the business environment metaphor were terms such as survival and adaptation, which related to profits, mergers, product diversification, and efforts to

359 Ibid., 12.
360 Ibid., 13.
361 Historian of science Hunter Heyck, for example, detailed how systems thinking as exemplified by the work of Herbert Simon and Talcott Parsons introduced a new perspective on science, society, and nature, which used terms such as systems, function, organization, and process. Heyck demonstrated how this new perspective was taught in public administration programs and business schools, influencing a generation of management scientists, Crowther-Heyck, Age of System Understanding the Development of Modern Social Science.
innovate. As a result, the business environment also became a useful metaphor to conceal the power relations inherent in a corporation’s milieu.

As several historians have established, long-range planning was a calculated and speculative attempt of world-making. It required knowledge and a model of the future, and for corporate executives to reflect on questions such as “what do we have to do today if we want to be some place in the future?” As the following sections detail, the probable events outlined by consultants and bank planners both provided visions of the future to their clients and firms but also worked to persuade these firms to pre-emptively act on their environments to actualize the futures presented to them by planners. The next section highlights how planning techniques made their way into bank management practices in the United States. These planning techniques helped transform bankers into managers and facilitated the transition of the business of banking into a financial service industry. Both of these transformations in banking were crucial, as demonstrated by the 1968 Federal Reserve report, to development of the management orientation that convinced American commercial banks to enter the credit card market en masse in the mid-1960s.

4.3 Planning Comes to Banking

In 1964, the American Bankers Association (ABA) surveyed their members on their management practices. The study uncovered that within a five-year period commercial bank management increasingly emphasized the need for planning practices. During that time span, nearly a quarter of the 60 surveyed banks adopted long-range planning strategies, while many others seriously considered adopting planning techniques. By planning, the ABA meant the practices of profit, marketing, and business development


planning. Describing the situation within his bank, one surveyed Midwestern Bank President told the ABA that his “bank [was] aware of the need to plan ahead in order to remain competitive.” These findings led the ABA to conclude that planning was becoming a banking phenomenon in the 1960s.

As mentioned in Chapter 2, between 1951-1964 two hundred banks had experimented with bank credit card programs, but only about half of those bankcard programs remained in operation by 1964. However, beginning in the spring of 1965 the number of commercial banks offering bank credit cards more than quadrupled from 70 to close to 300. As stated earlier, on March 1st, 1967 the Federal Reserve announced that they were going to conduct a yearlong study on the bank credit card and eventually concluded that the bank credit card was an “outgrowth of changes in the orientation of [bank] management.” The Federal Reserve reported that this new bank management orientation - highlighted by the widespread adoption of planning practices - led to an aggressive management fixation on growth and diversifying their customer base.

Before the Federal Reserve issued its final report on the bank credit card, they sent Harvard doctoral candidate Donald Gibson to research bank credit card operations on their behalf. Gibson reported that banks that adopted credit card operations made sense of the Chase Manhattan card’s colossal collapse and justified their entry into the field by stating that it was a lack of automation equipment and inadequate planning that served as the primary reasons for Chase Manhattan’s failure. In his research, Gibson found that

365 Ibid.
366 Ibid.
368 Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks” (Harvard University, 1967), 21.
369 Board of Governors, “Bank Credit Card and Check-Credit Plans: A Federal Reserve System Report.”
370 Ibid.
371 Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks,” 44.
surveyed bank officers did not come to their decision as to whether to enter the market or on a whim or haphazardly.

Gibson ascertained that interested banks formed statistical budget forecasts based on available data from other credit card plans, which they adjusted and translated for their local markets and expected outcomes. These banks also used any available government statistics or marketing research in their forecasts and profit projections. At the heart of those financial forecasts was an estimate of how many cards would need to be issued to turn a profit, which factored in state interest rate restrictions and expected losses. Specifically, Gibson discovered that large banks, “[had] formally organized personnel to do new product planning, and these personnel…played an important role in steering these banks towards credit cards.” This section examines the integration of these planning practices into American banking.

Big banks led the way in introducing statistically based planning techniques into bank operations. By the mid-1960s, large banks such as Marine Midland, the Irving Trust Company, First National City Bank (Citibank), Union Bank, and Bank of America employed profit analysts and had dedicated planning departments. Perhaps the most active large bank in the promotion of planning was the Union Bank in Los Angeles. The managers and planners at the Union Bank wrote prolifically on the topic of planning in

372 Ibid., 43.
373 Ibid., 39.
374 Ibid.
banking from the late-1960s to the early 1970s. Norman Carter, a Vice President at the bank, claimed that the introduction of statistically based planning techniques was a clear indication that a bank had “a progressive, dynamic, aggressive attitude toward the future.” Planning at the Union Bank represented a security technology as it was framed as a systematic process that made “possible the elimination of obviously poor risks” and enabled bank management to confidently take on greater risks. At the Union Bank, bank planners claimed that planning had informed a more aggressive and dynamic management style, helped management determine the type of risks to be undertaken, and gave managers a sense of confidence in their ability to take on certain future risks.

William Haberlin, the Vice President of Planning, argued that these statistically based methods of risk-based decision-making acted as a form of insurance for the Union Bank, “safeguarding against failure while building for the future.”

As B.C. Taylor an Assistant Vice President at Bank of America explained, his bank had adopted planning practices in the late 1940s and incorporated them into the operations of departments such as their Branch Location Unit. Taylor described the unit as operating a “program of intensive planning, continuing studies, and objective analysis… to provide the basis for management decisions.” Part of the intensive planning process involved gathering and analyzing data on market penetration, socioeconomic groups, and bank


usage in different geographical areas.\textsuperscript{382} Together this data was utilized to provide Bank of America’s management with five to ten-year projections that provided a calculated and speculative image of future environments that promised to help profit-planning and business development.\textsuperscript{383}

As demonstrated in the second chapter, we can see some planning techniques used by Bank of America’s CSR research team charged with investigating bank credit cards for the bank in the late 1950s. The CSR team gathered data and provided analysis on market penetration for Bank of America executives. This data analysis by the CSR team was meant to help executive decision-making and enable these executives to decide whether to take on the risk of adopting a credit card. For large banks such as Union Bank and Bank of America, statistically based planning techniques taken up after the Second World War acted as a security technology and offered some form of ‘growth insurance,’ providing both a method to confront declining profit margins and techniques to identify opportunities for future value creation. As the next section demonstrates, Citibank also invested heavily in planning as a means to ‘modernize’ their banking practices. Planners helped to convince Citibank executives that the bank should invest in a bank credit card program.

### 4.4 Planning at Citibank

One of the first initiatives of George Moore’s Presidency (1959 - 1967) at Citibank was to "introduce real planning and real budgeting."\textsuperscript{384} Moore stated that his desire to institute sophisticated planning procedures at Citibank came from his belief that "the one sure thing in the world is change, but the purpose of the plan is to manage change."\textsuperscript{385} However, Moore believed that more than even managing change, planning allowed for

\textsuperscript{382} Ibid.
\textsuperscript{383} Ibid.
\textsuperscript{384} George S Moore, \textit{The Banker’s Life}, 1987, 227.
\textsuperscript{385} Ibid., 233.
Citibank to institute and realize the bold objective of performing "every useful financial service, anywhere in the world...which we believed we could perform at a profit."\(^{386}\)

Moore sought advice from outside the bank to help the bank's management devise strategies to confront the evolving banking landscape. In 1965, as author and Walter Wriston’s biographer Phillip Zweig details, Moore hired GE's think-tank TEMPO to "look a quarter century ahead and tell the bank how it should take advantage of future trends."\(^{387}\) As Zweig noted, this was "a kind of long-term planning that was nonexistent in American banking at the time."\(^{388}\) It reflected a desire within the bank to modernize its management practices and gain insights into how to navigate a perceptibly uncertain future; it also provides insights into the bank’s entry into the credit card market.

TEMPO, an acronym for Technical Military Planning Operation, began in 1957 after GE decided to create a long-range planning 'think tank' and consulting firm.\(^{389}\) The name reflected the think tank’s initial task of devising solutions to the technical, military, and geopolitical problems of Western governments. At the outset, three-quarters of TEMPO's contracts were with government agencies.\(^{390}\) However, in 1965 seeing an opportunity to provide planning services to corporations, GE decided to change TEMPO from Technical Military Planning Operation to Technical Management Planning Operation.\(^{391}\)

Located in Santa Barbara California, TEMPO had a team of 300 employees - most with doctorates - who held expertise in engineering, natural sciences, mathematics, operations research and the social sciences.\(^{392}\) These scientists worked collaboratively to provide

\(^{386}\) Ibid., 231.
\(^{387}\) Zweig, Wriston, 196.
\(^{388}\) Ibid.
\(^{391}\) Ibid.
\(^{392}\) Ibid.
government and corporate clients with a "list of all possible alternative courses of action, developed by systematic analysis by teams of unbiased experts in many fields." The head of TEMPO, Dr. Thomas Paine a Stanford Ph.D. graduate in Physical Metallurgy, disclosed that the firm aimed to produce studies to "support the long-range planners, make their decisions sounder." TEMPO presented Citibank with a set of planners, prepared to reveal to bank managers and executives probabilistic future outcomes that would allow these executives and managers to pre-emptively act to secure a profitable future for Citibank.

TEMPO's manager of European and African programs, Roman Krzyczkowski, acknowledged that these studies that often looked up to 25 years into the future were not foolproof. Inherent within the service provided by TEMPO’s planners was the acknowledgment that imponderables did exist, meaning that not all risks were calculable and future uncertainty was unavoidable in the planning process. In fact, advising corporate managers on how to confront and manage this uncertainty was the service that consulting firms such as TEMPO and the Hudson Institute sold to their clients. Krzyczkowski claimed that their calculative techniques and methods to think through imponderables helped managers prepare for an uncertain future.

Krzyczkowski stated that clients could trust the accuracy of the forecasts found in TEMPO’s plans. The think tank had done the calculations and estimated that the plans they produced for their clients were "quite reliable," finding that the figures and projections provided in their reports were always found to be accurate within 10% to 15%. With these claims of relatively accurate estimates, TEMPO marketed its team of

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393 Ibid.
394 Ibid.
395 Ibid.
397 “Where GE Peers Far Into Future.”
398 Ibid.
engineers, mathematicians, and social scientists as providing clients with a calculative forecasting service that was better than guesswork.

In 1965, Citibank contracted TEMPO to help modernize their long-term planning efforts. In one of the conversations between Citibank and TEMPO, Paine encouraged Citibank to no longer see itself solely as a bank but rather as a global technology-based financial service corporation. Moore remembered that the TEMPO planners advised him, "You don't want to be a bank anymore. You want to be a global financial institution. You want to perform every financial service anywhere in the world [that] you can do at a profit." TEMPO advised Citibank executives that the computer market would grow on average 20 percent annually over the next half-decade, leading Moore to proclaim, “we should go in with both feet.” As Zweig discovered through his interviews with Citibank executives, "thanks largely to TEMPO, Citibank was about to become America's experimental bank." With the advice and recommendations of TEMPO, Citibank management had a spirit of risk-taking and felt confident to take on the risk of investing in the development of its technological capabilities to become a global financial service corporation.

After studying the future possibilities and potentials of these areas, Paine recommended that the bank "move quickly to do bold things" in the retail market. To accomplish this goal of becoming a global financial service provider and leader in the retail market, TEMPO suggested that Citibank take the risk of adopting a credit card program. Citibank introduced its ‘Everything Card,’ an all-purpose credit card, in August 1967. The ‘Everything Card,’ inspired by TEMPO’s projection that consumers in the future would represent a key source for deposits, was Citibank’s attempt to grow its consumer

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399 Zweig, Wriston, 197.
400 Ibid., 198.
401 Ibid., 199.
402 Ibid., 188.
403 Ibid., 230.
404 Ibid., 229.
banking practices. Based on interviews with Citibank executives, Zweig claimed that TEMPO “had driven home to Citibank the importance of the consumer and the credit card, something that would soon force the modernization of bank operations.”

Within a new ten-year plan, Citibank set the bold objective of a 20% credit card sales growth, an objective also set by Bank of America for its credit card operation. The director of Bank of America’s California BankAmericard division, John Dillon claimed that to achieve this growth banks needed “an understanding of the card’s present growth and realization of its future evolution.” Planning provided banks with both the statistical data necessary to measure the card’s present growth and forecast its future evolution. As the Citibank example highlights and the next section demonstrates, planning techniques and projections transformed American bank operations and strategies in the 1960s and convinced several banks to implement these high-risk credit card operations.

### 4.5 The Planning Process

The planning process not only helped to convince commercial banks to enter into the credit card market it also shaped how they ran their credit card departments. In his study of bank credit card operations, Gibson learned that senior management in banks adopting credit card programs, like the executives at Citibank, accepted that changes to traditional banking practices were necessary if their banks were to remain competitive and profitable. As with Citibank, the introduction of bank credit card plans led many banks to believe that they needed to introduce new management policies and practices. Gibson soon found consensus amongst the bank officers he interviewed that the practices of the ‘conservative’ installment loan banker would serve to restrict the growth of credit card

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405 Ibid., 285.


407 Rogie, “What’s in the Cards for Credit Men?” 29.

408 Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks,” 128.
outstanding debts. As one banker interviewed by Gibson noted: "We started with a banker, but a banker doesn't know what he's doing in this area, and he isn't any good at it. A banker's approach is "pay us." This is no good, because you have to have a retail merchant's approach, which is "come back to the store." In place of more traditional bank officers, the selection criteria for a bank credit card manager was more focused on the ‘individual’s profit orientation.’ As a result, banks like Citibank turned to management schools in search of qualified personnel.

In the 1960s, a wave of planners and managers were hired directly out of management schools that taught the systems thinking of the modernization theorists. These new bank managers and planners were trained in computer and management science and believed in the power of quantitative analysis to guide bank management decisions. Robert Joss, Vice President of Planning at Wells Fargo, suggested that the trend towards hiring young managers and planners trained in quantitative analysis and planning techniques represented a shift in the organization of bank management. Joss argued that top performing banks that did an exceptional job in planning were the ones that placed “less emphasis on somebody’s being a banker and more on his being a manager, and by that definition he’s got to do more planning.” These planners again confirmed the findings of Bank of America’s CSR, urging their banks to see credit card profits as reliant on volume. As a result, the hierarchies of avoidance that guided previous granting practices were no longer going to suffice.

Surveyed banks informed Gibson that they acknowledged that integrating into the crowded credit card market and obtaining the amount of volume necessary to turn a profit meant that low-income customers or ‘small borrowers’ would need to serve as a large part of their cardholder base. Banks surveyed by Gibson stated that planning

409 Ibid., 80.
410 Ibid., 125.
413 Donald M. T. Gibson, 43.
techniques helped them ‘liberalize’ the income criteria of acceptable loan risk, and enabled them to start tailoring “the size of credit lines for making smaller loans for lower income groups that were not served in the past.” With talk of an evolving bank management, Gibson found that when credit card operators in a bank spoke of conservative banking practices, they were often referring to an aversion to adopting these less stringent credit-granting standards. As Gibson discovered, talk of broadening of “eligible loan customers is what banks appear to mean when they talk of using looser credit standards in the credit card program, and criticize installment lending policies for being too conservative.”

The focus on a credit card manager’s risk orientation was due to the growing belief amongst banks that they needed personnel who adhered to “policies and philosophies in line with consumer lending, which accepted a certain amount of permanent debt for cardholders.” Donald McBride (VP of Bank of America) disclosed in 1967 that Bank of America from the onset of their credit card program recognized that they needed to condition Californians to become comfortable with revolving credit. McBride stated that according to his bank’s research, out of 6 million Californians about 1.6 million had what the bank referred to as ‘credit anxiety.’ McBride claimed that this was a rising trend in banking: “when bankers talk to each other, they discuss means of overcoming the debt resistance people still have.” One of Bank of America’s strategies to help consumers overcome ‘debt resistance’ involved a financial ‘experiment’ with a ‘sunny blonde.’

In 1965, the bank placed an advertisement that read, “Girl wanted for experimental research project by leading financial concern.” As Lana Swartz explains, the bank

414 Ibid., 45.
415 Ibid., 123.
416 Ibid., 125.
417 “Soon You’ll Never See Money at All,” Kiplinger’s Personal Finance, October 1967, 11.
418 Ibid.
419 Ibid. 11.
…hired “sunny blonde” Ann Foley, a “pretty secretary,” to live for one month “without touching any money.” During her month of living on a BankAmericard, Foley traveled throughout California, visiting Disney World and buying “a $150 wig, a dress, a yellow polka dot bikini, sport clothes, a stuffed alligator, and a toy mechanical dog”…Bank of America was Foley’s fairy god-mother. She had a “merry ball” for a month, driving a “Cinderella coach” in the form of a rented convertible. As in a fairy tale, Foley’s enchanted period came to an abrupt end when, after thirty days, her “magic purse snapped shut promptly at midnight… Those who held these BankAmericards were promised a kind of pseudoliberation that came with high interest rates.420

As Bank of America’s experiment and McBride’s comments illustrate, integrating precarious populations into the emerging bank credit card infrastructure was deemed necessary to maximize its volume and ensure its survival. ‘Liberal’ credit card managers were looked upon to not only find ways to help consumers overcome ‘credit anxiety,’ but also manage the risk inherent in approving credit to a large number of ‘small borrowers’ while also working to ensure a high volume credit transactions and outstanding debt.421

Given the necessity of volume in bankcard operations to accrue profits, banks mailed out millions of unsolicited cards throughout the United States. Mail out standards differed depending on the bank. Some banks sent a card to everyone listed in the phone book. Others sent cards to anyone who had a checking account balance between $100 to $300, and one bank even operated under the mantra of getting a “card in everybody’s hands who was not a crook.”422 Given the tight timeline of entering the market before their competitors, most banks reported not having the time or the budget to conduct expensive credit checks on every potential cardholder.423 The ABA reported in 1967 that banks sent nearly half of the mail outs without any credit checks.424


421 Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks,” 78.

422 Ibid., 43.

423 Ibid.

Other historians have indicated that banks and credit scoring agencies, to handle this increased risk and reduce losses, increasingly utilized statistically based operations research methods to develop credit-scoring systems.\footnote{Lewis F. Blumberg and Lawrence Cotter, “Operations Research and Bank Planning,” \textit{Long Range Planning} 8, no. 5 (1975): 29–38, https://doi.org/10.1016/0024-6301(75)90092-8; Hyman, \textit{Debtor Nation}; Paul Langley, “Sub-Prime Mortgage Lending: A Cultural Economy,” \textit{Economy and Society} 37, no. 4 (2008): 469–94, https://doi.org/10.1080/03085140802357893; Donncha Marron, “‘Lending by Numbers’: Credit Scoring and the Constitution of Risk within American Consumer Credit,” \textit{Economy and Society} 36, no. 1 (February 1, 2007): 103–33, https://doi.org/10.1080/03085140601089846; Martha Poon, “From New Deal Institutions to Capital Markets: Commercial Consumer Risk Scores and the Making of Subprime Mortgage Finance,” \textit{Accounting, Organizations and Society}, Accounting, Organizations and Society, 34, no. 5 (2009): 654–74.} STS researcher Martha Poon claims that these credit-scoring methods were attached to militaristic operations research.\footnote{Ibid.} As Poon explains, these individual credit scores acted as computational devices or formulas that produced information to enhance the decision-making capabilities of creditors.\footnote{Blumberg and Cotter, “Operations Research and Bank Planning,” 34.} One bank planner noted that the new statistically based scoring systems emerging in the mid to late 1960s were designed to increase credit limits while holding “risk of loss to an acceptable level while maintaining an adequate (net) income.”\footnote{Ibid.} These statistically based planning and decision-making tools were a natural fit for the new high-risk credit card departments within banks.

Given the difficulties associated with operating a credit card department, Dallas-based research and consulting firm Lifson, Wilson, Ferguson, and Winnick declared in 1973 that planning and planners were a must. The consulting company, to validate its position, claimed: “Today’s credit card manager faces a complex and changing credit card environment where a formalized approach to profit planning becomes a necessity.”\footnote{Don Reynolds and Jack Stone, “Profit Planning and the Credit Card [in Banks],” \textit{The Magazine of Bank Administration}, December 1, 1973, 28.} The Texas firm noted that the first step of the planning process was for bank credit card managers to “appraise the current situation, identify opportunities, anticipate problem
To appraise the current banking situation planners collected data on the banking environment.

Norman Carter explained that at the Union Bank planning starts with the gathering of data on the firm and its environment to provide a picture of all the forces affecting the bank’s operations. Union planner Blake Gibbs clarified that analysis of the banking environment was necessary for planners and managers to recognize “those elements of the outside world which have a significant effect upon the bank, particularly those which pose threat or offer opportunity to it.” Gibbs claimed that the analysis of the banking environment enabled planners at Union to outline all possible courses of action and provide a “systematic framework within which the bank’s senior management can rationally carry out its decision-making activity.” Scanning and analyzing the external environment provided a safeguard against poor risks and potential failure, and enabled the bank to adopt a more aggressive attitude toward the future.

The analysis of the banking environment was a process of risk evaluation and a determination of whether a potential risk presented an opportunity for value creation. Bank planners gathered data on the external environment from sources widely available to the general public, including reports from government agencies, economists, magazines (e.g., Fortune) and newspapers (e.g., The Wall Street Journal). From these sources, planners attempted to continuously identify trends, especially economic trends, population trends, technological breakthroughs, and growth of the money supply.

Finance professor Ronald Kudla claimed that bank managers saw planning as a means to cope with the “increased risk and uncertainty present in the bank’s external and internal

430 Ibid.
435 Ibid., 187
environment by making the bank more responsive to change through anticipatory
decision-making." As Kudla’s argument demonstrates, planning was a security
technology for bank managers and executives.

The second stage of the planning process was to “define controllable and uncontrollable
elements of each profit opportunity, as well as the interrelationships among elements.”
Department managers were required to be aware at all times of not only alternative
courses of action but also of “those elements in his operation over which he has control
and elements which are not manageable, i.e., set by legislation.” They needed
knowledge of the variables within their complex environment they could and could not
manipulate. With this awareness of controllable and uncontrollable factors, managers
then had to weigh the alternative courses of action. This process involved the
development of mathematical equations and ‘bank models’ that could quantify unit costs
and depict the relationship of department activities.

The ‘bank model’ was a linear forecasting equation that utilized linear regression models
to analyze the gathered data and provide forecasts. For instance, linear regression
models were used to approximate the relationship between interest rates and volumes of
loans. Bank models in credit card departments factored in cardholder and merchant
base, costs of funds, investments, credit and fraud losses, overhead, and detailed fixed
and variable operating expenses. As the consultants noted, “as complexity and future
uncertainties increase, the use of simulation models in the quantification process becomes
invaluable.” These models provided bank managers with a probabilistic forecast of
future changes to the banking environment to aid their decision-making.

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437 Don Reynolds and Jack Stone, 28.
438 Ibid., 29.
440 Ibid.
441 Don Reynolds and Jack Stone, “Profit Planning and the Credit Card [in Banks],” 29.
Surveyed commercial bankers told business professor Ronald Olson that the most important forecast for planning was the estimate of a bank’s deposits.\textsuperscript{442} A high volume of deposits permitted greater extensions of credit, more service fees, and larger potential profits. This prognosis of a bank’s deposits was constructed by amalgamating the bank’s deposit and loan volume history and by making explicit or implicit assumptions about future business conditions based off of domestic and international economic indicators (e.g., GNP).\textsuperscript{443} Included within those forecasts was a profit analysis, where strategists were expected to define the bank’s markets, the competition within those markets, and outline the factors that affect bank revenues.\textsuperscript{444} Planners then had to provide management with several models that contained alternative courses of action based off of statistical forecasts built from economic data and assumptions about future business conditions.

The final stage of the profit plan within credit card operations was to “track performance against objectives…actual performance must be tracked, through the use of information feedback systems, and weighed against predetermined profit objectives.”\textsuperscript{445} The ‘profit objective’ acted as a guide to help divisions enact the future sought by bank leadership. Consequently, these goals had to be ‘workable’ and ‘meaningful’ and composed of a set of terms that allowed employees in the various divisions of a bank to meet the targets set out by the executives.\textsuperscript{446} Seattle-First National Bank Vice-President, R.G Jaehning, claimed that it was important for credit card managers to recognize that the establishment of long-term growth objectives in credit card departments required the identification of the appropriate criteria in the measurement of success. Jaehning remarked that profit objectives in these department, “should be determined only after careful analysis of the market area’s economy. A maximum allowable loan loss ratio must be balanced with credit policy to permit profitable operations.”\textsuperscript{447} Given the continuous and ongoing nature

\textsuperscript{442} Olson, 30.
\textsuperscript{443} Ibid.
\textsuperscript{444} Ibid.
\textsuperscript{445} Ibid.
\textsuperscript{446} Don Reynolds and Jack Stone, 32.
\textsuperscript{447} Olson, 6.
\textsuperscript{447} Rogie, “What’s in the Cards for Credit Men?” 29-30.
of this criteria for profit objectives, the Dallas-based firm suggested that profit-planning had become a cyclical and formalized approach used by credit card departments to define clear strategies for realizing their profit objectives.\textsuperscript{448}

Planning bridged the gap between “where you are” and “where you should be” for department managers.\textsuperscript{449} As the Dallas firm outlined:

Planning bridges the gap from “where you are” to “where you should be.” Profit planning is not a tenuous, “paper” forecast of what you believe will happen; rather, it is a clear definition of, and strategy for realizing actual profit potential. It must be a formalized process by which managers evaluate alternative strategies considering their current situation and future opportunities.\textsuperscript{450}

Given the perceived and at times relative accuracy of calculated projections and forecasts, planning gave bank officers a sense of control over the turbulent and high-risk credit card environment and served as a means to justify taking on the risks of lending to low-income borrowers. This led the consultants to conclude that: “profit planning is, therefore, a process which enables the manager to “act” rather than “react” – to control the credit card environment rather than allow the environment to completely dictate his actions and control him.” \textsuperscript{451}

These statistically based planning techniques, equations, and models provided bank managers with a sense of confidence that the future was relatively calculable, even if unknowable, especially with regards to consumer lending. The popularity of planning techniques in American banking grew to a point that by the mid-1970s over two-thirds of commercial banks in the United States utilized planning strategies.\textsuperscript{452} By the end of the

\textsuperscript{448} Don Reynolds and Jack Stone, “Profit Planning and the Credit Card [in Banks],” 32.

\textsuperscript{449} Ibid.

\textsuperscript{450} Ibid.

\textsuperscript{451} Ibid.

\textsuperscript{452} Klein, “Impact of Long Range Planning on Profit and Growth in Selected Segments of Commercial Banks,” 186.

4.6 Conclusion

In the mid-1960s, with a wave of new banks entering the credit card market, the Federal Reserve claimed that a change in the orientation of bank management was responsible. As this chapter outlined, this change in banking reflected the transformation of ‘bankers’ into ‘managers’ and the business of banking into a financial service industry. Both of these alterations were crucial to the development of the bank credit card infrastructure. On the one hand, banking understood as a financial service industry gave added importance to adopting financial services such as the credit card. On the other, executives considered ‘bankers’ a poor fit for overseeing these new financial services, preferring instead to hire managers to run their credit card departments. Surveyed executives stated that ‘managers’ were better suited to supervise the credit card departments because they not only showed a greater degree of confidence offering consumer credit to higher-risk borrowers but also demonstrated a comfort with dealing with financial products that potentially left customers in a state of permanent indebtedness. The chapter claimed that the planning techniques introduced into banking by ‘managers,’ or bank officers trained in management schools or with previous experience in other industries, facilitated this confidence and comfort needed to run a bank credit card department.

Planning methods with their environmentality and focus on risks and opportunities represented a security technology for commercial banks and led bank management to act pre-emptively on the bank ‘environment’ to safeguard their bank against possible future risks and maximize potential benefits. As this chapter established, the environmentality of corporate strategy included risk technologies such as long-range planning, which sought to collect and translate information about the firm’s external environment to aid in management decision-making practices. As a risk technology, long-range planning held
the promise of both aiding the long-term survival of a corporation and to increase the ability of management and executives to take on greater risks, such as implementing a credit card program. The ability of this technology to enable a manager or executive to take on greater risk was due in part to the use of models and formulas to both describe the environment of the corporation and forecast future developments in this environment, and also the investment of the firm to either actualize or prevent the actualization of this future in the present.

As the Citibank example highlights, long-range planning techniques transformed internal operations at American banks. With these calculative techniques, banks set profit objectives and implemented standardized budgeting, forecasting, and accounting procedures to realize these goals and operate profitably. They hired planners that utilized planning techniques such as linear regression analysis and modeling practices to operate their credit card departments. These planners, reliant upon these largely military-inspired statistical tools and techniques, helped banks ‘liberalize’ their bank credit card lending practices and set bold profit objectives for these divisions. However, banks such as Citibank also used or hired planning consultants to identify future trends and foresee opportunities for profit and growth. In short, planning methods held the promise of increasing a bank’s risk-taking capacity and its ability to survive a changing banking environment.

Planners in the mid to late 1960s, based on their calculations and projections on the future of banking identified computers, credit cards and the retail banking market as crucial areas for future profits and growth. Despite the past failures of bank credit card operations, banks like Citibank took the advice of planners and jumped into these high-risk markets ‘with both feet.’ With operations and strategic planning techniques in hand, bank managers felt confident in their ability to implement and operate a profitable credit card department. Planning models served both as a means to rationalize past credit card failures and a tool to shape the internal operations of bank credit card departments. The next chapter shows how the environmentality underlying these planning techniques also helped to convince bank executives to invest in the concrete installations necessary to support an automated payment systems or bank credit card infrastructure.
Chapter 5
Building the Base

5  The Development of the Bank Credit Card’s Technical Infrastructure

In 1967, bank credit card outstanding debt was only on par with oil company credit cards and less than half of those for department stores ($800 million versus $3.5 billion). By 1970, the bank credit card’s outstanding debt had skyrocketed to $3.7 billion, doubling the receivables for oil cards and drastically narrowing the gap with department store cards – their receivables had only risen to $4.6 billion. As Chapter 4 revealed, beginning in 1965 American commercial banks began to enter the credit card market en masse thanks in large part to the introduction of industrial planning techniques. This chapter details how these banks came together to form the bank credit card associations that enabled the incredible growth of the bank credit card’s share of outstanding debt.

Building on the excellent research conducted by historian David Stearns whose work offers the first substantive treatment of Visa’s technical infrastructure, this chapter emphasizes how the bank credit card infrastructural arrangement was assembled out of a reorientation of longstanding corporate bank practices. Moreover, it demonstrates how the philosophies guiding the development and construction of the bank credit card infrastructure intimately resembled the defense logics that supported NATO’s ‘Common Infrastructure Program,’ that is described in Chapter 3. Specifically, the chapter highlights how the high costs of payment automation equipment influenced the decision of many banks from 1966 to 1970 to form historic alliances with competitors in the form of bank credit card associations.

Much like the NATO ‘Common Infrastructure Program,’ these joint-venture arrangements between banks supported the growth of a global payment system and reflected a shift in focus in banking away from people towards infrastructure. The chapter details how - as with the troops maintaining and operating NATO’s infrastructure - bank executives did not consider the

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454 Andrew Brimmer, “Bank Credit Cards: The Record of Innovation and Growth” (Puerto Rican Bankers Association, March 26, 1971), Box 1120C, LBJ Library.
predominantly white women workers acting as payment processors as essential parts of the payment infrastructure. In fact, bank executives regarded these workers as the central problem of the payment operation, devaluing their work and rendering these women workers into a “feminized underclass” in their bank’s operations.\textsuperscript{455}

The nascent bank credit card associations not only promised to help reduce personnel costs but also to secure the future of a participating bank’s credit card operation by extending the potential geographic reach of credit card programs, reducing competitive pressures, and preventing fraud. To facilitate these objectives, the bank credit card associations pooled resources of member banks to build the automated authorization, settlement, and clearing systems that were needed to support the supra-national visions of a global automated payment infrastructure. The chapter details how these automated systems were not only linked to military technologies and but also primarily served the interests of the largest commercial banks.

The bank credit card associations brought forward the possibility of the mass production of credit, a lucrative possibility for executives at large banks such as Citibank, Bank of America, Marine Midland, and Wells Fargo that issued the majority of the bank credit cards in the United States. Large banks such as Citibank supported strategic privatization of electronic fund transfer systems and promoted a public-private arrangement with the Federal Reserve. As described in Chapter 2, the Federal Reserve had acted as the primary payment interface between banks since the early 20\textsuperscript{th} century. The large banks and payment corporations, to support their position, claimed to be innovative payment operations capable of helping small consumers by providing them with innovative and inexpensive payment services. Behind these claims, was a vision put forward by bankcard executives like Visa’s first CEO Dee Hock, who claimed:

Any organization that could guarantee, transport, and settle transactions in the form of arranged energy impulses twenty-four hours a day, seven days a week, around the globe, would have a market, \textit{every} exchange of value in the world, that beggared the imagination.\textsuperscript{456} (Italics added for emphasis)

\textsuperscript{455} I have borrowed the term “feminized underclass” from Historian of Technology Marie Hicks. Hicks used the term in reference to the job categories in the UK computer industry that sought to deskill and depress the wages of women labourers, Marie Hicks, \textit{Programmed Inequality : How Britain Discarded Women Technologists and Lost Its Edge in Computing}, 2017.

\textsuperscript{456} Dee Hock, \textit{Birth of the Chaordic Age} (San Francisco: Berrett-Koehler Publishers, 1999), 125.
It was a capitalist field of dreams. Much like the logic behind modernization theory, if commercial banks built the system, a global payment system dominated by the major payment corporations would surely follow, and it did. As mentioned in the introduction, Visa’s ‘cyber-infrastructure’ currently authorizes transactions in over 175 different currencies, over millions of miles of fiber-optic cables that connect Visa’s 1,600 network locations. This massive ‘cyber-infrastructure’ did not seamlessly transition from a local paper based interchange network into a global cyber-infrastructure. The construction of a global payment infrastructure entailed more than just manufacturing the material through which data passed. It also required the cultivation of a banking ‘environment’ amenable to the existence of private global payment systems.

5.1 Bank Credit Card Associations

Chicago served as the testing ground for the rapidly growing credit card market. In 1966, Chicago area banks sent out close to 5 million unsolicited cards. John Sturgis, Vice President of the Continental Bank, remarked at the time: “This is a mass game. It’s not good without lots of numbers, lots of cards.” Sturgis’ comment reflected a credit card strategy premised on achieving a higher market share than your competitors while also increasing network effects, or the assumption that value of your credit operation correlated to the number of cardholders and merchants. Some Chicago homes would receive close to a dozen bank credit cards in the mail, sometimes receiving multiple cards from the same issuing bank. The Chicago banks were interested in market share and card volume, even if it meant public embarrassment, bad debts, and high losses from fraud.

However, the competition for market share did not stop at consumers, these banks also voraciously competed for merchant accounts. As mentioned in Chapter 4, one of the variables listed by planners as a controllable factor in the credit card environment was the discount rate.

457 “Curbs on Credit Cards Issued by Banks Being Sought by Patman in House Bill,” Wall Street Journal, August 29, 1967, Box 559B, LBJ Library.

458 Since banks were often relying on account information to determine potential customers, it was not uncommon for a toddler to receive a card in the mail. This practice was later explained as being as a result of the toddler having a trust started in their name with deposits high enough to be considered creditworthy or eligible for a bank credit card, Ibid.
charged to merchants. While the credit card department could control and set this rate, what they could not do is control the prices of their competitors. Almost all banks issuing credit cards at the time charged the maximum allowable interest rate to cardholders. However, to gain a dominant share of merchants, Chicago area banks had begun to implement risky discount pricing practices to build their merchant base.

These banks began to offer discount rates of only 2% to 3% as opposed to the more standard 5% to 10%. Robert Kennedy who served as the general manager of Illinois Bankcharge for Chicago’s Pullman’s Bank stated, “we have to realistically say that discount rates are too low to cover costs.” The intense discount rate competition forced many banks out of the market and threatened the survival of many more. However, soon after these initial losses, reports began to surface that the bank credit card market in Chicago had become profitable for those banks who decided to continue their credit card operations. The profits experienced by select Chicago area banks were helped along by the formation of a ‘bank credit card association,’ the precursor to the payment corporations.

Sturgis’ First Continental along with the First National Bank of Chicago formed the Midwest Bank Card System in September of 1966. These two banks controlled 60% of Chicago’s credit card market and so decided to create the first ‘compatible bank credit card system.’ The association’s attorney described this system as one where “each bank works independently to issue cards to cardholders and enroll merchants, but understand that cardholders and merchants are interchangeable.” At first, the association was comprised of thirteen member banks but soon convinced 800 banks in the Midwest to become members.

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459 Don Reynolds and Jack Stone, “Profit Planning and the Credit Card [in Banks].”
460 Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks.”
461 “Curbs on Credit Cards Issued by Banks Being Sought by Patman in House Bill.”
462 Ibid.
464 “Curbs on Credit Cards Issued by Banks Being Sought by Patman in House Bill.”
The decision to form a bank credit card association was meant to reduce the fierce competition in the market for acquiring merchants. The Midwest group, to foster a more cooperative environment, had members agree that any merchant signed by a member bank would accept the cards issued by any bank belonging to the bankcard system. While the acquiring and issuing banks still received the fees from each arm of the operation, this meant that banks no longer had to form either individual agreements with a competing bank or with every merchant. As management scientist Donald Gibson explained, a bankcard association provided its member banks with a broad base of merchants and the best prospects for the profitable performance of their programs. The joint venture approach was also found to be important in large markets, where the survival of a bank’s credit card program necessitated a more cooperative and less competitive approach.

To further facilitate cooperation in the transaction process, the Midwest bank’s decided to implement a set of uniform operating standards, including a particular card size, symbol, and thickness. It also introduced a complex regional and national “interchange” system. As Bill Maurer explains, the word ‘interchange’ – much like the word ‘infrastructure' comes from transit engineering and refers to the “engineering of routes for vehicles so as to permit the flow of traffic through or around junctions.” To facilitate the transaction process between banks, it quickly became apparent that some form of value exchange process was necessary. Interchange meant that banks had to develop standards for forms, data recording, card design, authorization, and the acceptance or rejection of sales slips.

Like NATO’s ‘Common Infrastructure Program,’ Visa’s first CEO Dee Hock proclaimed the bank credit card associations to be truly monumental feats as it was the first time in a 200- or

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468 Donald M. T. Gibson, “A Study of the Strategic and Operational Significance of the Credit Card for Commercial Banks,” 35.

469 Ibid.

470 Stevens, “The Expanding Role of Bank Charge Card Associations.” 47.


300-year-old industry that “an enormous number of immensely powerful, tradition-bound enterprises voluntarily surrendered autonomy to a central organization for a common purpose.” The espousal of basic tenets of postwar environmentality helped make these organizations possible. The stated objective of these groups was to create a “dynamic competitive situation that fosters innovation and aggressiveness in promotion between members of the association and yet maintains a cohesive front in competing with another charge card system.” Much like the NATO ‘Common Infrastructure Program,’ competing banks – similar to economically competitive nations - agreed to participate and help build these cooperative systems because they promised to create a banking environment amenable to economic development and security against an uncertain future. Bank executives interviewed by Donald Gibson listed external factors as being their primary motivation for joining bank credit card associations. The bankers interviewed stated that competitive pressure and the uncertainty over future technical developments had led their banks to join these systems in the mid to late 1960s. As detailed in Chapter 4, after scanning their business environment, commercial bankers felt it necessary to adapt to the changing banking environment to survive.

The impact that these associations had on the credit card market was incredibly fast and profound. Between 1966-1970, 20 nonprofit bankcard associations formed that had 2700 member banks. The increase in associations and members helped draw in over one million merchants, to go along with nearly 50 million bank credit card holders and a nearly $3 billion increase in outstanding debt. By 1968 every state except for Alaska was dominated by a regional or statewide bank credit card association owned and operated by the big banks. In those states, there was at least one bank linked to either of the two dominant bankcard associations, BankAmericard or their competitor Interbank.

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474 Stevens, “The Expanding Role of Bank Charge Card Associations,” 47.
475 Ibid.
477 Board of Governors, “Bank Credit Card and Check-Credit Plans: A Federal Reserve System Report” (Federal Reserve, 1968), Box 1120C, LBJ Library.
5.2 NBI (Visa) & Interbank (MasterCard)

In March 1966 Kenneth Larkin (Vice President of the Consumer Credit Department), shortly before the formation of the Midwest Bank Card System, suggested to Bank of America executives that they begin to franchise ‘BankAmericard’ in states outside of California. Bank of America submitted Larkin’s idea for a licensing program to the Department of Justice, who provided the bank with an informal and then formal indication that there was nothing objectionable about moving their card operations across state lines.478 In June 1966, Bank of America chairman Louis Lundborg announced the launching of the licensing of the BankAmericard (Visa). Lundborg revealed that banks outside of the state of California would soon have the opportunity to operate one of these card plans independently, using the BankAmericard name and format, and maintaining BankAmericard standards.479 As part of their enrolment package, banks received an operation manual, advertising and public relations guidance, a computer program, and were allowed to send their personnel to Bank of America’s credit card school.480

One bank that applied to ‘attend’ credit card school and become a licensee was Marine Midland.481 Marine Midland in June 1966 applied for a license to issue Bank of America’s

479 In exchange for the fee of $25,000 and a royalty based on sales growth, banks could join the growing BankAmericard network, Ibid.
480 Ibid.
481 Marine Midland had actually entered into the bank credit card business before Bank of America. Karl Hinke – he was in charge of the bank’s computer and credit card operations – recalls initially being opposed to the idea when Marine Midland management brought the idea forward in 1953. In an interview looking back on the introduction of the bank credit card, Hinke stated: “you extended credit after you had sat down with a man and talked to him fact to face.” His reservations notwithstanding, Hinke saw his division begin to turn a profit in 1962, three years after the introduction of the Marine Midland ‘charge card.’ A mesmerizing feat considering that most bank credit card plans failed miserably, including one of Marine Midland’s biggest competitors, Chase Manhattan. Hinke credited the profit breakthrough to the bank’s increasing use of computers and the automation of data processing, which helped to cut the cost of processing the paperwork associated with the cards. Given the profitability of the operation and the appointment of a new President at Marine Midland that promised to introduce industrial style management practices to the bank, including profit planning, Hinke urged management to continue to expand the holding companies’ credit card operations, “Interbank Credit Cards Newest Fad For Buying What You Want in U.S.,” *Daily Press*, March 17, 1968; Staff Reporter, “Marine Midland Says Credit-
BankAmericard. However, Bank of America rejected the bank’s licensing application because it considered the Buffalo-based bank to be too big and were worried about the competitive strain this large bank would put on this growing nationwide bank credit card system.\textsuperscript{482}

In response to Bank of America’s rejection, Karl Hinke (Executive Vice President, Marine Midland) convinced Marine Midland management to take the risk of forming a bank credit card association to challenge the BankAmericard.\textsuperscript{483} In August 1966, Hinke met with a group of big banks led by Pittsburgh National Bank to discuss the possibility of forming a rival bankcard association to compete against the BankAmericard.\textsuperscript{484} Five months later, eight of those banks met again at the Duquesne Club, an upscale private social club in Pennsylvania where they decided to form the “Interbank Card Association.”\textsuperscript{485} Within a year ‘Interbank’ (MasterCard) membership included four of the five biggest banks in New York, helping Interbank surpass
BankAmericard as the largest bank credit card association in the country.\footnote{486} By 1968, Interbank’s bank credit card infrastructure had over 2000 offices and 175 member banks.\footnote{487}

In 1969, Interbank purchased the licensing rights, card design, and the name of “Master Charge” from the Western States Bankcard Association.\footnote{488} The latter was composed of four major California banks (Bank of California, Crocker-Citizens, Wells Fargo, and United California).\footnote{489} The purchase of the “Master Charge” rights and consolidation with the Western States Bankcard Association helped Interbank become the first cooperative nationwide bank credit card system.\footnote{490} Membership to Interbank entailed a commitment to invest in the future of the association and to provide personnel to serve as directors and committee members.\footnote{491} Much like NATO’s SHAPE, an appointed board of directors governed Interbank, with a committee formed if necessary to help provide these managers with the information required to plan the future direction of the association. The system was fundamentally redistributive, with any profits derived from transaction fees being either re-invested in the corporation or returned to members, and with a communication structure in place where member banks had personnel serving as the executives, ensuring a circuitous flow of information from members to board of directors, and vice versa.\footnote{492}

In contrast to Interbank, Bank of America established the BankAmericard Service Corporation (BASC). The BASC was led by Donald McBride and was meant to facilitate and manage the licensing process.\footnote{493} In their role as facilitators, the service corporation determined the methods for authorization, clearing, and settlement. Unlike Interbank, which had its members participate in the formulation of these standards, Bank of America decided to treat the card as a product they were selling to interested banks. Communication flowed only in one direction, from the BASC to...

\footnote{486} “Interbank Credit Cards Newest Fad For Buying What You Want in U.S.”
\footnote{487} Fischer, “Seven Credit Cards Explained.”
\footnote{488} Stevens, “The Expanding Role of Bank Charge Card Associations,” 47.
\footnote{489} “5 Coast Banks Set Credit Cards,” Women’s Wear Daily: New York, May 26, 1966.
\footnote{490} Stearns, Electronic Value Exchange, 28.
\footnote{491} Bailey, “The Unique Role of the Bank Card Association.”
\footnote{492} Ibid.
the members. It was an awkward arrangement given that Bank of America, one of the largest banks in the country, was acting as a bank credit card issue, license administrator, and potential arbiter between competing BankAmericard licensees.\textsuperscript{494}

The BASC, further complicating this bank credit card arrangement, used non-uniform contracts signed with individual banks. This contractual arrangement meant that every time the BASC sought to adapt or evolve their operations, they would have to renegotiate every license.\textsuperscript{495} Visa’s first CEO Dee Hock framed the organization of the BASC as a corporate relic that did not reflect the type of sophisticated planning, communication, and operational changes of 1960s American banking. Hock recalled thinking at the time, “… if you think you can renegotiate all the licenses to get licensee banks to surrender enough authority to the Bank of America to let you make rules and enforce them, you’ve fallen down the rabbit hole with Alice.”\textsuperscript{496}

Much like the situation in Chicago, reports began to surface of ‘interchange’ banks in the BankAmericard system trying to undercut one another by either not processing sales drafts or trying to sign up the same merchants.\textsuperscript{497} Hock claimed that Bank of America’s failure to establish consistent policies and operating regulations, led banks to act in their own self-interest at the expense of another member bank.\textsuperscript{498} The acquiring banks received payment first, so had little incentive to process the sales slips to be sent to the card-issuing banks. Without the sales slips sent from the merchant to the acquiring bank, the card-issuing bank could not bill the cardholder. As Hock explains, reports began to surface that bank offices held slips with hundreds of millions of unprocessed transactions.\textsuperscript{499} The organizational problems came to a head just two years after the licensing program began.

\textsuperscript{494} See Hock, \textit{Birth of the Chaordic Age}, 103–13.
\textsuperscript{495} The Service Corporation had only one recourse to reprimand banks that did not comply with the terms of their contract, kick them out. Terminating license agreements was not considered a viable option, as it would endanger bank relationships outside the credit card market, Ibid., 108.
\textsuperscript{496} Ibid.
\textsuperscript{497} “The Bank Credit Card,” \textit{Banking} 59, no. 11 (May 1967): 100.
\textsuperscript{498} Hock, \textit{Birth of the Chaordic Age}, 77.
\textsuperscript{499} Stearns, \textit{Electronic Value Exchange}, 37; Hock, \textit{Birth of the Chaordic Age}, 77.
The first meeting to innovate the BankAmericard product and address the growing inefficiency of the licensing system was held in 1968. At the heart of the criticisms unleashed at the gathering were the non-uniformity of contracts and hierarchical operating structure of the BankAmericard system. At these meetings, the BASC begrudgingly allowed licensee banks to form committees that would devise the principles, policies, and regulations that would provide a framework for a more cooperative organization.

In May 1970, Bank of America officially announced that they were completely reorganizing their BankAmericard operation. The official release stated that the redesign of the program was done to give a greater voice to members. To facilitate this increased voice, Bank of America terminated all existing licensing arrangements and invited all members to ‘join the new company on equal footing.’ At the time of the release, McBride noted that the new bylaws meant that the organization was now “structured to prevent any one bank from dominating the operation.”

Much like the NATO ‘Common Infrastructure Program,’ Bank of America acceded to the argument that a mutual and cooperative joint-venture arrangement was necessary to maintain a system that aimed to produce cooperation between competitors in the construction and joint financing of a geographically expansive system.

The new joint venture was named National BankAmericard Incorporated (NBI), and established in Delaware as a for-profit, non-stock membership corporation. Dee Hock, an outsider from Seattle, was named NBI's first President in July 1970. NBI’s members charged Hock with the monumental tasks of maintaining and growing NBI’s payment authorization and processing systems or infrastructure. In May 1969, to facilitate the level of cooperation needed between competitors to build an expansive infrastructure, Hock and three colleagues formed a committee that outlined the governance principles for NBI’s new organizational structure. At that meeting, Hock recalls devising ten new principles that would guide what would eventually become Visa:

1. It should be equitably owned by all participants
2. Participants should have equitable rights and obligations

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“Reorganization Set for BankAmericard.”
3. It should be open to all qualified participants
4. Power, function and resources should be distributive to the maximum degree
5. Authority should be equitable and distributive within each governing entity
6. No existing participant should be left in a lesser position by any new concept of organization
7. To the maximum degree possible, everything should be voluntary
8. It should be nonassessable
9. It should induce, not compel, change
10. It should be infinitely malleable yet extremely durable\textsuperscript{502}

According to Hock, these principles represented the birth of the ‘chaordic age.’ ‘Chaordic’ was defined by Hock as: “The behavior of any self-organizing and self-governing organism, organization, or system that harmoniously blends characteristics of chaos and order.”\textsuperscript{503} Much like Massumi’s argument that environmentality introduces a view that order emerges from chaos, Hock’s ‘chaord’ philosophy postulated that through the oscillations of order and chaos, an innovative and profitable payment system could be formed.

Hock’s ‘chaordic’ organizational philosophy reflects the postwar environmentality that sought to introduce the ‘systems’ approach to governance detailed in Chapters 3 and 4, discharging with the metaphysical classifications of being that supported classical liberalism and the ‘industrial age.’ ‘Chaord,’ echoing the work of early systems and modernization theorists, relied on the assumption that complex processes in nature do not ‘exist’ in a mechanistic and hierarchical manner. Hock claimed that this conception of nature, as a mechanistic and hierarchical system, informed the out of date command and control management strategies of the ‘Industrial Age’ that guided the BASC.\textsuperscript{504} According to Hock, a ‘chaordic’ organization is decentralized, self-organized, self-governed, flexible and adaptive. Hock, describing this philosophy, would write:

\begin{itemize}
\item \textsuperscript{502} Hock, \textit{Birth of the Chaordic Age}, 139.
\item \textsuperscript{504} Hock, \textit{Birth of the Chaordic Age}, 61.
\end{itemize}
The trick of a biological organism in a changing physical environment is to evolve into what form best serves function. The trick for each part of an organism is to assume a form useful to the evolving whole. It is no different for organizations. The trick for an organization in a changing social environment is to continually evolve into whatever form best serves function. The trick for each part of the organization is to assume a form useful to the emerging whole. Healthy biological organisms and health organizations alike are an ever shifting panoply of relationships exhibiting characteristics of both chaos and order.\(^{505}\)

According to Hock, this focus on the conditions surrounding banking, that is, its “environment” composed of political, legal, social, economic and technological spheres presented an opportunity to bankers. Specifically, Hock claimed that it presented an opportunity “to reconceive, in the most fundamental sense, the very ideas of bank, money and credit - even beyond that to the essential elements of each and how they might change in a microelectronic environment?"\(^{506}\) Hock claimed that by thinking of banking within an environmental framework led him to the realization that

We were not in the credit business. Credit card was a misnomer based on banking jargon. The card was no more than a device bearing symbols for the exchange of monetary value. The fact that it took the form of a piece of plastic was no more than an accident of time and circumstance.

We were really in the business of the exchange of monetary value.\(^{507}\)

As a result of this re-conception, Hock argued that NBI be organized as a non-hierarchical grouping of competitors. NBI, much like the other bankcard associations, had to produce this ‘chaordic’ structure through policy, planning, spending, and construction. For instance, NBI introduced uniform contracts and operating standards such as card size, symbol, and thickness.\(^{508}\) They also introduced new membership levels. NBI had Class (A) and Class (B) members, while Interbank offered Full and Associate memberships. Proprietary members (A and Full) were responsible for the issuance of cards, the collection of accounts, and the operation of the interchange system, whereas Class (B) and Associate members served as agent banks - a move designed to help spread the geographical reach and transaction volume of the payment system. These changes reflected Hock’s belief that BankAmericard had to transform from a

\(^{505}\) Ibid., 116.
\(^{506}\) Ibid., 117.
\(^{507}\) Ibid., 124–25.
\(^{508}\) Stevens, “The Expanding Role of Bank Charge Card Associations,” 47.
licensing and trademark business to a “horizontal grouping of competitors” that “could exist within the spirit and constraints of antitrust laws.”

NBI’s ‘chaordic’ organizational arrangement reflects the postwar approach to environmentality, where, as Foucault explains, action was focused on the “rules of the game rather than on the players.” According to Foucault, this focus instigated “an environmental type of intervention instead of the internal subjugation of individuals.” As established in Chapter 3, NATO and the US government used this type of governance strategy aimed at altering the socio-technical spheres that made up their ‘environment’ to facilitate the dual objective of security and economic development. It is clear that with the ‘Chaordic’ arrangement of the bank credit card associations, they too had also adopted this governance strategy.

With the advent of these historic horizontal grouping of competitors, existing with a ‘chaordic organizational system, the bankcard associations saw a 50% increase in the number of banks participating in the bank credit card market. However, even with the new cooperative philosophy deployed by bankcard associations such as NBI, governing power remained predominantly in the hands of those banks with the highest sales volume. In NBI, voting privileges were based on sales generated by each bank’s card. This voting arrangement meant that Bank of America still retained 25% of the total votes and considerable control of the new entity.

The large national banking corporations also continued to hold a dominant share of outstanding bank credit card debt. When NBI and Interbank formed, they had 9,111 banks participating in their nascent bank credit card infrastructure. However, only 16% or 1,427 of those banks issued BankAmericard or Master Charge cards. Close to 85% of member banks served as agents for larger banks and held no outstanding credit card debt. Of a possible $3.048 billion, the large

509 Hock, *Birth of the Chaordic Age*, 141.
511 Ibid.
512 “Reorganization Set for BankAmericard.”
513 Andrew Brimmer, “Bank Credit Cards: The Record of Innovation and Growth,” March 26, 1971, Box 1120C, LBJ Library.
bank enterprises held $2.765 billion or approximately 91% of that outstanding debt.\textsuperscript{514} The evidence clearly demonstrates a correlation between the formation of the bank credit card associations and the growth of outstanding bank credit card debt from 1966 to 1970 – debt held mostly by the largest commercial banks - raising it from $800 million in 1967 to $3.7 billion by 1970. The bankcard associations worked to concentrate control and debt in these systems in the largest commercial banks. They also helped these banks cultivate a banking environment amenable to both the economic development of their consumer credit operations and the long-term survival of their bank in the increasingly automated future of banking. As this section illustrated, central to manufacturing this banking environment were these joint-venture associations that could not only increase network effects, but also provide the capital necessary to construct the concrete installations that could facilitate a supra-national payment system.

5.3 Investigating Electronic Fund Transfer Systems

By the mid-1960s commercial bankers became enthralled with the notion of a ‘cashless society.’\textsuperscript{515} As historians Bernardo Bátiz-Lazo, Thomas Haigh, and David Stearns have revealed, by the mid-1960s, talk began to surface about building networks for the automatic exchange of value or electronic fund transfer (EFT) systems and the formation of a ‘checkless society.’\textsuperscript{516} However, banks required knowledge on the possibilities of automated banking before this type of payment environment could be produced. The conversations on electronic fund transfer (EFT) coalesced into a series of industry-specific reports in the late 1960s and early 1970s. Initially written to help operations specialists confront the crises inherent in these systems, they soon drew the attention of bank executives in search of new sources of value.\textsuperscript{517}

\textsuperscript{514} Ibid.


\textsuperscript{517} “Major Events in Evolution of EFTS Are Occurring with Rising Frequency,” \textit{Banking} 67, no. 5 (May 1975): 79.
These bank executives quickly recognized the value-creating potential of these electronic funds transfer systems, and their ability to help banks gain a dominant share of the payment market.

The first notable committee tasked with studying EFT was the Special Committee on Paperless Entries (SCOPE). Based out of California, SCOPE worked to develop the type of environment (i.e. software, rules, and legal arrangements) needed for an automated clearinghouse. The committee's findings resulted in the Federal Reserve Bank of San Francisco opening the California Automated Clearing House Association (CACHA) in 1971, which enabled banks to exchange debits and credits electronically. Despite the involvement of commercial bankers, CACHA remained in the hands of the Federal Reserve. While SCOPE was facilitating the construction of CACHA, the ABA was commissioning their own studies on the future of the payment system. One of the biggest studies was The Outlook for the Nation's Check Payments System: 1970-1980, written by consulting firm Arthur D. Little Inc. and published in December 1970. The report forecasted imminent crisis in the payment environment. It speculated that the use of checks would double within a decade, creating a data processing crisis in banking.

The publication of the Monetary and Payments Systems (MAPS) committee report in May 1971 validated these concerns. The MAPS report argued that existing payment systems would only be able to survive the transaction volume increases for ten years. According to MAPS, coping with the volume increase and dealing with potential crises in the future, meant planning the construction of automated clearinghouses now. As a caveat, the report added that these systems should not be dependent on the Federal Reserve. Richard Cooley, President of Wells Fargo, chaired MAPS. Under Cooley's direction, MAPS stressed the need to develop new

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519 “Major Events in Evolution of EFTS Are Occurring with Rising Frequency.”
521 Ibid.
523 Ibid., 54.
524 Ibid.
independent automated clearinghouse facilities. Specifically, MAPS argued that these establishments were necessary to help deal with bank credit card expansion.\textsuperscript{525} Bank credit cards were gaining popularity, increasingly being used in place of other forms of credit - seeing a 2% increase from December 1970 (21.4%) to June 1971 (23%).\textsuperscript{526} From 1970 to 1971, credit card receivables in the United States grew by 28%.\textsuperscript{527} They represented close to 5% of all instalment credit issued in the US and 10% of all consumer credit at commercial banks.\textsuperscript{528}

The reports and investigations into EFT helped to convince bank executives of the potential profits attached to proprietary automated payment systems.\textsuperscript{529} These convictions and the looming opportunities provided by EFT helped to transform the focus of the banking environment from expense management towards mass production. Martin Ernst (VP, Arthur Little) claimed that in the “bank card industry we have the two major companies serving as the manufacturers, the Class A members as wholesalers, and Class B members as retailers.”\textsuperscript{530} The wholesalers or Class A members were the proprietary owners of the bankcard associations serving as manufacturers. They pooled investments to help the executives of the bankcard associations build the concrete installations necessary to facilitate the mass production of debt.

With a new focus on mass-production, some ‘wholesaling’ banks completely transformed their ‘back offices.’ For example, in 1968, Citibank hired John Reed to help modernize its operations. Reed initially was hired to introduce into the bank the automation technology and the organizational techniques he learned from MIT during his MBA and in his brief stint at Goodyear.\textsuperscript{531} Reed was also able to secure $23 million in funding from Citibank executives in 1968 for Citibank Services Inc.\textsuperscript{532} Citibank Services Inc. emphasized the need for the bank to be

\textsuperscript{525} Ibid.
\textsuperscript{526} Andrew Brimmer, “Growth and Profitability of Credit Card Banking.”
\textsuperscript{527} Ibid.
\textsuperscript{528} In comparison, in 1967 they represented 1.0% (total instalment credit) and 2.0% (commercial bank credit), Ibid.
\textsuperscript{529} Robert F. Clayton, “Electronic Funds Transfer Is Coming,”\textit{Banking} 65, no. 3 (September 1972): 42.
\textsuperscript{530} Martin L. Ernst, “EFT and the Future of Banking,”\textit{Banking} 67, no. 10 (October 1975): 54.
\textsuperscript{531} Zweig,\textit{Wriston}, 285.
\textsuperscript{532} Ibid.
innovators in the automation of financial services. TEMPO’s recommendation that Citibank strive to investigate the feasibility of the electronic handling of payments, ATMs, and integrated financial communication networks influenced Citibank Services Inc.’s emphasis on producing innovative banking technology.\footnote{Ibid., 197.}

One specific area identified by TEMPO where this computer expertise would be particularly useful and potentially profitable was in the replacing of paper with data in the clearing of payments.\footnote{Ibid.} If Citibank could develop the technology to clear payments electronically, they could theoretically operate as a global financial service provider. The credit card, as opposed to checks or hard currency, represented the financial tool the most amenable to this type of automation and the device capable of helping Citibank gain a greater share of the retail banking market. In effect, the planners at TEMPO urged Citibank to invest the technology to support the bank credit card infrastructure.

Citibank noted in its company newsletter that to facilitate the implementation of this new technology it had hired a number of young college graduates, including several young women. Barbara Accardo, one of the young women hired by the bank, claimed that programming was “an excellent career field for woman and there is such demand for programmers that experienced housewives can do free-lance work.”\footnote{“Citibankers in the Computer Age,” \textit{Citibank Magazine}, 1968, MS 197, Tufts University Digital Collections & Archives.} Meanwhile, Andrew Emmett, a 25 year old systems programmer, argued that “One thing people never seem to get straight is that computers are not here to cut down on employees. The end results is efficiency, allocating people more effectively, not getting rid of them.”\footnote{Ibid.} Unfortunately, Emmett turned out to be wrong, as the programmers and support staff that had helped install the system were soon out of a job. If Hock’s ‘chaord’ symbolizes a cooperative and competitive organizational structure at the association level, at the operations level ‘chaord’ symbolized the replacement of back office workers (e.g., clerical staff) with automation equipment.
Reed used this young talent to automate Citibank’s entire back office operations and cut costs by slashing thousands of jobs. As journalist Joe Nocera discovered in his research into Reed’s work, “by the time he left six years later, he had turned chaos into order: automating everything in sight; setting up systems that more closely resembled an assembly line at General Motors than anything bankers were used to…” With regard to internal bank operations, chaos stood for human labor and order arose from its replacement with automation equipment. Automation was helping to modify the banking environment, transforming bank operations into ‘assembly lines’ and emphasizing the mass-production of consumer credit.

Figure 6: General Trend in Payment Services. Robert F. Clayton, "Electronic Funds Transfer Is Coming," Banking 65, no. 3 (September 1972): 42.

However, while the introduction of EFT was helping to transform banking into a mass production operation, there were still significant limitations on how much any individual bank could grow an EFT system on their own. As one report noted, “capital investment in data processing equipment is mammoth, especially since banks have already invested heavily in check-processing equipment.” Banks needed to combine forces, pool capital, and centralize planning in payment “manufacturers” to extend the reach of the system, facilitate the mass-

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production of debt, and capture “every exchange of value in the world.”\textsuperscript{539} Banks needed a ‘Common Infrastructure Program.’

NATO’s ‘Common Infrastructure Program’ represented an historic defense alliance between nation-states to joint-finance concrete installations that NATO planners projected to help both secure pro-capitalist nations and facilitate economic development. As mentioned earlier, the bankcard associations also represented an historic alliance between competitors that sought to joint-finance the construction of the concrete installations necessary to ensure the survival of the bank credit card and help its growth. Underlying both of these historic alliances was an environmentality that instigated a non-hierarchical, future-oriented and systems based decision-making approach to planning that stressed the need to pre-emptively act on the ‘environment’ to meet the objectives of security and growth. As the remainder of the dissertation details, bank officers and bankcard executives set to work to alter the political, economic, legal, technological, and social spheres that comprised the banking ‘environment’ to facilitate the growth of the bank credit card infrastructure and meet their security and growth objectives.

5.4 NBI and Interbank’s BASE

According to Hock, there was a central problem behind the construction of a supra-national payment infrastructure that the bankcard associations helped to solve:

…No bank could do it. No hierarchical stock corporation could do it. No nation-state could do it. On a hunch I made an estimate of the financial resources of all the banks in the world. It dwarfed the resources of most nations. Jointly, they could do it, but how? It would require a transcendental organization linking together in wholly new ways an unimaginable complex of diverse institutions and individuals.\textsuperscript{540}

Even the largest banks in America were reliant on their competitors to build a payment system that could help form a global payment infrastructure. Much like NATO’s ‘Common Infrastructure Program,’ the construction of concrete installations that worked to help the economic growth and secure the future of allied forces required an organizational arrangement

\textsuperscript{539} Hock, \textit{Birth of the Chaordic Age}, 125.
\textsuperscript{540} Ibid.
that pooled resources and centralized the construction of these systems in the hands of executives or high commanders. NBI (Visa) and Interbank (MasterCard) were those organizations.

At the 1971 Charge Account Bankers Association Conference, Dee Hock announced to the world that NBI intended to build the BankAmericard Authorization System Experimental (BASE) system. The vision underlying the building of BASE was complete automation of value-exchange. However, in the beginning, BASE worked as a gateway for the creation of a digital network that could connect the existing seventy-six BankAmericard centers and processors. Payment authorization came first; BASE II would introduce clearing and settling capabilities. BASE was to be composed of a nationwide computer telecommunication network – built on the AT&T telephone network. Its central data center would be in San Mateo. The data center would communicate with terminals in each BankAmericard center through four regional minicomputers. BASE was to be the “first phase of a more comprehensive nationwide bank information processing system.” Given the enormous scale of BASE and BASE II, NBI conducted a series of EFT experiments in small (predominantly white and wealthy) communities.

One of NBI’s first experiments with electronic fund transfer happened in October 1971 in Columbus, Ohio. In a joint project with IBM and the Upper Arlington City National Bank & Trust, NBI conducted an experiment to see how consumers would react to a more automated payment experience. NBI provided thirty-seven merchants with IBM Model 2730s terminals that would take the customer’s card – encoded with a magnetic strip – and transmit the data from the card to a computer center for authorization and recording. The transaction was posted “to an electronic memo file and that night [was] transferred by the computer to the master file at the computer center, along with the rest of the day’s transactions.” The early experiments with

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542 Ibid., 80.
543 NBI also conducted an experiment with the Hempstead Bank in Long Island, New York. It was a 14-month project focused on instant transactions, or the use of automation technologies to provide immediate debiting and crediting “No-Cash Shopping Passes First Tests,” *Banking* 64, no. 10 (April 1972): 28.
544 Ibid.
545 Ibid.
instant debiting and crediting helped convince banks that consumers were able to adapt to electronic banking. They also assured bank credit card issuers of the “feasibility and benefits of replacing human authorizers with computerized logic.”

Figure 7: How It Works. "No-Cash Shopping Passes First Tests," Banking 64, no. 10 (April 1972): 28.

Given the relative success of the experiments, NBI and Interbank announced the launching of their private nationwide bank credit card systems on May 9th and 10th of 1973.\textsuperscript{547} Interbank’s system was called INAS (Interbank National Authorization System) and was centrally located in St. Louis, operated by the International Communication System on Western Union’s microwave services.\textsuperscript{548} Alternatively, BASE was centralized in San Mateo with four regional concentrators and ran on AT&T’s telecommunication lines. BASE operated on a Digital Equipment

\textsuperscript{546} Stearns, \textit{Electronic Value Exchange}, 76.


\textsuperscript{548} Ibid., 116.
Corporation PDP 11/45 minicomputer that would accept authorization requests from either an acquirer’s authorization center or directly from a merchant’s electronic cash register. One of NBI’s four regional centers would collect pending transactions from the central authorization center of an acquirer and send this information across the AT&T network to the central system in California. Once in California, the computer would determine the card issuer from the digits entered from the card and then forward this request to the issuing bank for authorization. Within months of BASE going ‘online,’ it had moved from a 10 hours a day service to a 24 hours a day, seven days a week service, authorizing over 15,000 transactions a day.  

By utilizing AT&T and Western Union communication systems, the bankcard associations manipulated the variables of their environment (i.e. existing telecommunication networks) to modify the banking environment. They did not need to build these systems from the ground up. The cables were already running above and underground. While BASE and INAS modified material elements in their environment, they also presented significant challenges to the regulatory environment. Initially, the construction and organization of the BASE system did little to affect local approvals. Where BASE had its largest impact was in the area of interstate transactions. The authorization times in the past for interstate transactions could take over an hour; the new systems reduced the average transaction time to just 70 seconds.  

As George Mitchell, a member of the Board of Governors of the Federal Reserve (FED) noted, EFT had created a new banking environment, and it was fundamentally altering the US economy. Thanks to EFT by the early 1970s, ninety percent of the dollar volume of the US economy’s transactions was not in the form of coins and cash. Instead, most money was in the form of an electronically stored ledger account in a bank's computer facility. Money was now a

549 Ibid.  
552 During this same time period, the Board of Governors of the Federal Reserve released a statement that claimed, “basic changes in the Nation’s system for handling money payments [are] essentially [a] transitional step toward replacing the use of checks with electronic transfer of funds,” George Mitchell, “The Bank Card and the Payment Mechanism” (National Bank Card Conference, September 12, 1972), RG 56 Box 12, National Archives at College Park, College Park, MD.  
553 Ibid.
‘byte’ as opposed to a coin. Mitchell was describing the emergence of the credit-money system, which facilitated fractional-reserve banking. Digital currency facilitated the formation of a system that allowed commercial banks to extend more credit than they held in actual fiat money. Mitchell, who had been particularly interested in the bank credit card, remarked that it was this device above all else that had complicated regulators’ perceptions of how the payment system works. The credit card and its associations were not only becoming leaders in EFT development but through these developments helped to introduce interregional transfers of value, bypassing previous interstate banking restrictions. These nascent authorization systems, stretching into and across every state, helped to bring forward questions over whether the payment infrastructure should be a public utility.

5.5 Public or Private

The capacity to extend the reach of large banks across the United States did not pass without controversy within the banking community. James E. Brown (VP, Mercantile Trust Company, St Louis) represented the views of small banks in an editorial written for Banking in 1972. Brown argued that every bank shared the "mandate to reduce the growing volume of check transactions before we are buried in an avalanche of paper." However, small banks were concerned about losing market share due to their lack of resources to invest in automated cash dispensing terminals (i.e. ATM) or ‘Financial Convenience Centers’ – end points in the payment infrastructure. Brown proposed:

The joint ownership of a network of convenience centers... cooperative effort more economical than the current branch banking system, with the expense of building and staffing, it if far more convenient for the customer... most importantly, it is a means of circumventing certain states' prohibitions against branching.

554 Ibid.
555 Ibid.
557 Ibid., 20.
558 Ibid.
Brown put forward this suggestion as a way for small banks to participate in the new EFT banking environment, while not having to “buy its own expensive terminal machines.”

In contrast to Brown, John Reed (VP, Citibank) brought forward the position of the large banks. Reed agreed with Brown that it would be easier and, in the short run, more efficient to operate shared EFT systems. In fact, Reed was clear that his bank had “no objection to banks handling any reasonably invisible part of the service together, such as the communication line over which the system works.” (Italics added for emphasis) Citibank favored sharing EFT systems and the bank credit card ‘infrastructure’ with other banks. However, Reed claimed that a shared terminal system, or the more visible parts of payment, would put the banking industry in “great danger of finding itself regulated.”

Specifically, Reed argued that sharing terminals would draw the interest of the Federal Reserve or other regulators who would then “step in, set up regulations and start running the system from a monopolistic point of view.” Reed feared that the payment infrastructure would become a public utility. In place of a shared terminal system, Reed proposed maintaining a cooperative ‘infrastructure,’ but also retaining competition amongst banks in terminal and other electronic service products. Reed claimed his position was based on the simple reality that “in the long run, the name of the game is capitalism.”

Banks both large and small supported the construction of a jointly owned infrastructure, or the invisible parts of the system. However, while the small banks favored an entirely cooperative system, large banks feared that a ‘homogenous’ automated banking environment would result in further banking regulations or worse yet, the transformation of the infrastructure into a public utility. As a result, large banks such as Citibank argued that ‘competition’ must remain a core element of any EFT project. On the other hand, small banks realized that the cost of installing automated terminals in select locations – predominantly grocery stores – would be expensive and

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559 Ibid.
561 Ibid., 20.
562 Ibid.
563 Ibid.
ultimately prohibit their ability to offer automated banking services. It was a system that favored the large banks and forced smaller banks into a more retail-oriented position.

With these new systems being introduced and transforming the US banking environment, the Board of Governors of the Federal Reserve argued in 1971 that there should only be a single, integrated nationwide mechanism for the efficient electronic transfer of funds. The Federal Reserve held the position that in the face of this electronic revolution, the complete privatization of clearing systems should not occur. Instead, the FED continued to regard its traditional role as an interface for small and large banks as critical. They believed that the Federal Reserve should serve as the mechanism to ensure that conditions of entry into this nationwide clearing arrangement were fair and that equal treatment of participating member banks was assured.

With these automated systems growing, the Federal Reserve decided to formulate long-range objectives to “deal with the still growing volume of checks and the possibility that the flow of funds in the economy will literally be choked by paper.” One report noted that in 1973 there were 23 billion checks written. To confront these persistent crises and answer the question of “how the cost of EFT should be allocated,” the Federal Reserve in February 1974 opened the

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564 George Mitchell, “Recent Developments in Money Transfers,” February 26, 1973, RG 56 Box 12, National Archives at College Park, College Park, MD.

565 In 1967, the ABA and the Federal Reserve announced that they had come up with an agreement that would allow cooperative bank credit card plans to clear their sales slips through the Federal Reserve’s existing check handling services. In essence, the program was designed to help facilitate the interchange process for the newly formed credit card associations. Before the adoption of this new rule, transit numbers were assigned only to individual banks, making the service useless to the interchange process of the new card associations. Some organizations immediately applied for a transit number, such as the California Bankcard group. However, other associations such as the Midwest Bank Card System rejected the proposal. The Midwest group of banks stated that their decentralized processing “system is working out well as it is.” They had no interest in altering their sales slips for the transit coding offered by the Federal Reserve. The Midwest Bank Card System’s rejection of the Federal Reserve’s central clearinghouse system for its members was the first public stance against the formation of a publically owned centralized credit card clearinghouse. Similar to the clearinghouses built before the Federal Reserve Clearinghouse in 1915, the new bankcard interchange systems were private. These interchange systems increased volume, generated revenue, and distributed costs amongst participating commercial banks, Staff Reporter, “Bank Credit-Card Plan Sales Slips to Clear Via Checking Channels,” Wall Street Journal, June 28, 1967. George Mitchell, “Recent Developments in Money Transfers.”


door to comments from its members. It searched for policy suggestion on things such as “the appropriate roles in the ownership and operation of an electronic payments system.” This openness provided an opportunity for banks to cultivate an environment amenable to the ownership arrangement they sought.

The ABA immediately expressed their desire to keep any EFT developments competitive. ABA President Rex Morthland stated,

Technological advances should not alter the scope and extent of the Federal Reserve's role in the nation's check-clearing system. The System should accommodate change by upgrading its facilities to the most efficient means of meeting its settlement responsibilities, without preempting private initiatives.”

In the opinion of the ABA, competition did cover the entire payment system. The ABA believed that the Federal Reserve should continue to provide the valuable – and costly - service of local and regional clearinghouses, but that they should not pre-emptively invest in technologies or systems that competed with the initiatives of private enterprises such as the bankcard associations. The quote also highlights how with EFT development, privatization was not a simple all or nothing issue. The desire of the banking community was not to ‘privatize everything’ it was strategic privatization. Bank executives had no interest in adopting the Federal Reserve’s check clearing role, but large banks and the bankcard association presidents did want to develop their own EFT systems. Specifically, Morthland added that the commercial bank clearinghouses and Bank Card networks should remain private, without interference from the Federal Reserve.

This section highlighted the division within the banking community over what parts of the payment infrastructure should and should not be shared. Small bankers preferred an automated payment system that was entirely shared including terminals and communications lines. Alternatively, officials such as John Reed representing larger banks supported efforts to share the ‘invisible’ parts of the infrastructure such as the communications lines but not the more visible

570 Ibid., 8.
elements such as terminals. According to Reed, a completely uniform system that appeared devoid of competition between banks would draw the attention of regulators. This debate between small and large banks is important as it provides an outline of the limits and dynamics of competition and cooperation in the bankcard associations. As will be discussed in Chapter 8, there were legal concerns over a completely shared system. However, in terms of economics, sharing only the ‘invisible’ parts of the infrastructure provided a competitive advantage to large banks who could develop proprietary terminal technologies that held their logo and brand as opposed to waiting for the associations to develop these technologies. As evidenced today, large banks won the debate over what technical elements should be shared and what elements should remain competitive. With regard to the issue of the privatization of the payment process, this issue came to a head later in 1974 when the ABA hosted a Roundtable on EFT.

5.6 Roundtable on the Future

In response to these debates over the ownership of the payment system, the American Bankers Association (ABA) hosted a roundtable on EFT in the summer of 1974. The main topic up for discussion was the creation of national EFT systems. On the panel were the CEOs of the two large bankcard associations, Dee Hock (NBI) and John Reynolds (Interbank). Joining Hock and Reynolds were George Mitchell (Federal Reserve), John Fisher (VP, City National Bank and Trust Company, Columbus, Ohio), and Norman Strunk (VP, United States League of Savings Associations). Richard Hill (Chairman, ABA Payments System Policy Committee) served as the panel's moderator.571

Hill claimed that the position of his committee was that the Federal Reserve should operate a central electronic fund transfer system. However, he stressed the importance of allowing its member banks to devise the rules governing the system. Participating banks would handle and set the regulations for the nationwide value exchange system. However, it would operate in concert with the check clearing functions of the Federal Reserve System. Even though Fisher's bank served as NBI's guinea pig earlier in the decade, he echoed Hill's sentiment. At the roundtable, Fisher presented the voice of medium and small size banks. He claimed that these

banks supported the ABA position, and wanted the Federal Reserve to continue acting as the main clearinghouse for its member banks. However, Fisher warned that while “medium sized banks and small [banks] would accept the ABA position, large banks and non-bank associations would find it less acceptable.”

When pushed to answer why large banks disagreed with the ABA stance, Fisher responded that large banks, echoing Reed, believed that a homogenized system would be non-competitive. Fisher clarified that the opposition from big banks was not really over the formation of a homogenized or non-competitive system operated by the Federal Reserve for its members. Rather, Fisher claimed that the large banks and bankcard associations presented this argument to validate the creation of a separate, private payment system. For his part, Mitchell believed that the continued reliance on the Federal Reserve System was necessary. During the roundtable, he stated openly:

Member banks have $30 billion in balances with the FED, which provides the basis for the transfer of funds. It is doubtful that the banking industry would be willing to duplicate this $30 billion for another transfer system. It simply cannot afford it - and that fact should be borne in mind.

Mitchell claimed that he was not against the formation of alternative systems but suggested that panelists be mindful that these systems could be wasteful. Mitchell’s claim was based on the belief that the bankcard associations were developing systems that aimed to adopt all of the processing functions of the Federal Reserve. It was an assumption shared by every member of the roundtable except the two executives representing the card associations.

At the roundtable there was a conviction amongst most of the panelists that EFT operated like a simple ‘switch,’ transferring funds electronically from one member bank to the other, essentially mimicking the functions of the Federal Reserve. In fact, the other panelists pushed Hock and Reynolds to present their card operations as ‘switches.’ They viewed Interbank and NBI as offering a simple interchange service between their member banks; an interchange service that might be considered wasteful and unnecessary.

572 Ibid., 29.
573 Ibid.
Hock and Reynolds viewed their payment operations as more than just a ‘switch.’ Instead, they saw their corporations as operators of an electronic value exchange system. Crucially, from their perspective, the settlement and clearing processes involved more than just the simple economic function of the transference of funds between institutions. Rather, they viewed these processes as engineering opportunities to build an infrastructure for electronic data exchange. Hock explained this position, “When you move into electronic value exchange...you're not talking about electronic fund transfer; you're talking about electronic value exchange and the system which will create electronic value exchange...” The payment corporations were attempting to frame themselves as innovative intermediaries harnessing old payment systems for new purposes, while also acting as ‘disintermediaries’ displacing the role of older institutions, which in this case is the Federal Reserve.

Hock envisioned these networks transferring more than just currency. In Hock’s eyes, if money was in the form of ‘bytes’ then value exchange was not the transference of funds but the transmission of data. Hock made it clear that these organizations dominated by large banks were searching for innovative opportunities not simply to transfer but create value. Hock agreed that the Federal Reserve had traditionally operated as an interface between banks. However, Hock claimed that it had not acted as an innovator, developing software, communication lines and data capturing techniques - this was patently false.

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574 Ibid.
575 As the Future of Money Research Collective notes, private payment corporations have sought to move “from an understanding of payment providers as intermediaries facilitating the transfer of value to ‘disintermediaries’ displacing the role of these institutions and others – including the state.” Taylor C. Nelms et al., “Social Payments: Innovation, Trust, Bitcoin, and the Sharing Economy,” Theory, Culture & Society, December 19, 2017, 3, https://doi.org/10.1177/0263276417746466.
576 To meet the demands of this new digital economy, the Federal Reserve opened a new communication center in Culpeper, Virginia. Located in the rural hillside of Culpeper – a county with a population under 20,000 people - the facility was guarded by electronic barriers and armed guards. These security measures were put in place to protect not only the digital message-switching units but also the cash vaults - used in cases of national emergency. The message switching units were a combination of Model 37 terminal units and IBM Model 2968 tape units, which transmitted data over telephone lines to the 12 Federal Reserve Banks, the 24 branches of those banks, the Federal Reserve Board, and the US Treasury. Following the construction of the Culpeper Center, the Federal Reserve decided to open its “Informatics Communication System 500” in January 1971. Located in downtown Manhattan, the new system operated on two Xerox Data System Sigma 5 computers, a Model 37 teletypewriter, and transmitted messages through Western Union cables. The system worked by routing a bank’s message to the payee bank’ terminal and then “the computer at the Fed records all the details of the transfer. At the end of the day, all transfers are
Hock asserted that if the Federal Reserve were to work with banks on the formation of this automated clearinghouse system, it would hinder the competitive thrust of banks to continue to innovate the payment infrastructure. Hock asked his fellow panelists:

…had banking waited for the [Federal Reserve] to work out the mechanics of a single system to clear bank card drafts, develop plastic identity devices and software, create marketing material and other such innovations, would we have bank cards today? I doubt very much we would. I think they're here today because of intense competitive thrust.  

At the roundtable, Hock argued that an increased FED presence would “adversely affect the competitive thrusts which we think will insure the best benefits to consumers and merchants.”

Underlying this argument was a neoliberal translation of the economy that stressed the importance of the competitive price mechanism – an assumption often used to justify privatization. Historian Daniel Stedman Jones argues that neoliberal economists claimed that “the price mechanism operated as an information processor that sent unique, comprehensible signals to producers and consumers that were impossible for [government] planners to replicate.” Free market advocates of the price mechanism claimed that allowing open competition in a free market system would be the best way to ensure equality of production and consumption. Under this economic hypothesis, the byproduct of this equality was the assurance that producers would produce at the lowest possible cost.

The new digital communication and record keeping system handled the transference of close to $20 billion of funds every day. In explaining their decision to build these systems for the electronic exchange of value, a Fed spokesmen stated, “We got into funds transfer because nobody else did. We’d be happy to let commercial banks develop their own funds transfer systems and move on to other things.” Richard M. M. McConnell, “Payments System Faces More Change,” Banking 66, no. 13 (July 1974): 8; “New York Fed Unveils Its New Electronic Funds Transfer System,” Banking 64, no. 1 (July 1971): 36.

577 “When the Achieve a Nationwide Electronic Funds Transfer System...,” 29.
578 Ibid.
579 David Harvey provides a wonderful summary of the assumption: “Privatization and deregulation combined with competition, it is claimed, eliminate bureaucratic red tape, increase efficiency and productivity, improve quality, and reduce costs, both directly to the consumer through cheaper commodities and services and indirectly through reduction of the tax burden,” David Harvey, A Brief History of Neoliberalism (New York: Oxford University Press, 2007), 65.
580 Jones, Masters of the Universe, 3.
To further his argument, Hock proposed to the roundtable speakers that “any cursory examination of the antitrust laws leads to realization that most antitrust lawyers and the Justice Department feel the same way. Competition means separate. It means two or more parties, battling it out head to head, win or lose.”\footnote{When the Achieve a Nationwide Electronic Funds Transfer System...,” 29.} This statement reflected the popular belief of the period that federal agencies, statutes, and regulations protected weaker competitors, allowing them to continue to offer services above market price. Hock’s position at the roundtable was that while technology was a dominant force in the electronic revolution, it was competition that paced EFT development. He was adamant that “the pacing item is not technology. It's the structure of banking, because banking has not had, until recently, organizations capable of piecing together services that operate truly nationwide.”\footnote{Ibid.} Reynolds, agreeing with Hock, described these new ‘innovative’ organizations:

The technology is there. In using it, we've demonstrated that we can get cooperation on a democratic basis from 6000 banks. They cooperate for the mutual good, because they want the freedom to compete one with the other. So we set minimal standards, but we leave them free to do all of the things that they should be able to do...this competition will lead to the lowest cost for the consumer, for the merchant and for the bank.\footnote{Ibid.}

Reynolds’ quote again highlights the two-sided argument of the payment corporations, as he frames these organizations as both repurposing existing technology and allowing for disintermediation to occur. It was an organization that did not require the State or Federal Reserve as it policed itself, setting minimal rules and standards designed to optimize innovation and create a fluctuating competitive environment. As Reynolds claimed, the only desire of Interbank and NBI was to “create a service that facilitates 6000 banks to compete with each other and with 6000 to 8000 other banks.”\footnote{Ibid.}

The associations acted in a governmental capacity providing a ‘chaordic’ organizational arrangement oriented towards cooperation and competition growth and security. However, we can see also see this as an infrastructural arrangement aimed at providing growth and security for member banks. The bank credit card infrastructural arrangement encapsulated the postwar
approach to environmentality that Foucault explained as “action…brought to bear on the rules of the game rather than on the players, and finally in which there is an environmental type of intervention instead of the internal subjugation of individuals.”

Within the context of the public versus private ownership debate, by emphasizing the “rules of the game” rather than the players, Hock and Reynolds tried to validate the claims that governments were ill-suited to build and operate the nascent credit card payment ‘infrastructure.’

5.7 Aftermath

The payment infrastructural arrangement proposed to respond to the increase in electronic fund transfers that saw bankcard associations handle electronic consumer transactions, while the Federal Reserve remained responsible for check clearance, payroll deposit, and other payment functions. This arrangement would enable bankcard associations to privatize most electronic payment processes. Just months after the roundtable, Congress authorized the formation of the National Commission on EFT systems that would help to decide this question. The Commission, composed of officials from financial institutions, corporations, and the public sector, was given two years to recommend policy and legislative action. The same month that the commission formed, the Comptroller of the Currency, James E Smith, issued a controversial decision on EFT. Smith contended that automated tellers and POS terminals did not constitute bank branches. His interpretation of the National Bank Act caused great concern amongst smaller banks, as they feared further encroachment from big banks in their local market.

The timing of Smith’s decision coincided with the launching of BASE II. In November 1974, NBI announced the opening of its automated clearinghouse. With the opening of BASE II, NBI members were no longer required to settle and clear their sales drafts through the mail. The newly automated clearinghouse allowed members to turn their sales drafts into electronic data files. In this arrangement, NBI now acted as the central clearinghouse for its members, essentially serving as payment manufacturer ensuring the continuous flow of debits and credits across its infrastructure. To facilitate the electronic clearing and settlement of member sales


586 “Major Events in Evolution of EFTS Are Occurring with Rising Frequency,” 79.

drafts, NBI used one central mainframe computer. This central computer helped NBI sort, collect, total, and distribute the data it received from members. At a price of $7 million, BASE II was a high fix cost expensed, but it presented a real opportunity for Hock’s vision of a payment empire. As Stearns explains, “because the electronic transactions could be transmitted over telecommunication lines, all the BankAmericard processing centers in the entire nation could clear and settle through the clearinghouse every night.”

In December 1974 - a month after BASE II became operational - Congressman William Proxmire introduced legislation to place a moratorium on EFT development. Proxmire argued that EFT development was preempting the work of the government agencies and commissions studying automated payment systems. Edward A. Trautz, President of the Independent Banks Association, later echoed Proxmire’s concerns, adding that the “laissez faire approach isn't going to work.” Trautz’s organization represented 7,300 small banks that feared that EFT development would help large national banks encroach on their territory. By August 1975, the US Senate rejected Proxmire’s moratorium. The Senate Banking, Housing and Urban Affair Committee decided by a vote of 9 to 4 to table (i.e. reject) Proxmire’s bill. The Senate Committee’s decision on EFT was considered a major victory for commercial bank lobbyists representing large banks.

Following on the heels of the Senate decision, in September 1976, NBI announced that it was going to adopt the name “Visa” for its American and International credit card devices, as well as take on that name for the entire organization – forming Visa Inc. Before the name change, NBI’s cards carried several different labels depending on the country. In Canada, the BankAmericard was “Chargex,” the UK’s card was the “Barclaycard,” “Sumitomocard” was the

588 Ibid., 96.
589 “Major Events in Evolution of EFTS Are Occurring with Rising Frequency,” 79.
591 “Major Events in Evolution of EFTS Are Occurring with Rising Frequency,” 79.
Japanese version, and “Carte Bleue” cards were issued in France. The company felt that the multitude of names for the same card created confusion for travelers and merchants and having a card with ‘America’ in its name did not help their ability to expand their services globally and reach their objective of constructing a supra-national infrastructure.\textsuperscript{593} The introduction of the ‘Visa’ name corresponded with a large increase in the number of active credit card accounts and card-issuing banks. To deal with the growing traffic, Visa sought to upgrade BASE I’s capacity. As Stearns explains, Visa re-implemented BASE I’s operating software on IBM hardware and the Airline Control Program (ACP), a program developed by Sabre for airline reservations.\textsuperscript{594} The adoption of this hardware and the ACP system provides a link between the payment infrastructure and postwar military projects.

The bankcard associations not only adopted military inspired organizational arrangements and planning techniques but also technology. Drawing form the work of historians Paul Edwards and Stan Augarten, we can see that the ACP system was modeled on developments in military technology. Edwards’ work on the history of automation during the Cold War has revealed how defense investment in computer research led to the development of SAGE, or Semi-Automatic Ground Environment. In the late 1940s and early 1950s, SAGE was the name of the project created by the Air Force to build a continental air defense system. As Edwards explains, “SAGE was the first large-scale, computerized command, control, and communication system.”\textsuperscript{595} SAGE introduced things such as analog/digital conversion techniques and real-time digital computing. Augarten’s research on SAGE highlights how "SAGE taught the American computer industry how to design and build large, interconnected, real-time data-processing systems."\textsuperscript{596} One of the companies in the computer industry to benefit from SAGE was IBM. IBM, working with American Airlines, developed the SABRE airline reservation system in 1964, which represented the first commercial network for real-time transaction processing.\textsuperscript{597} SABRE stood for (Semi-

\textsuperscript{593} Ibid.

\textsuperscript{594} Stearns, \textit{Electronic Value Exchange}, 124.


\textsuperscript{596} Ibid., 102.

\textsuperscript{597} Ibid.; Stearns, \textit{Electronic Value Exchange}, 127.
Automatic Business-Research Environment), which as Edwards points out, reflects its attachment to SAGE.  

The upgrades to the IBM hardware eventually facilitated the real-time supra-national authorization, clearing and settlement capabilities of Visa’s payment infrastructure. Here again, we can see the entanglements between Visa’s infrastructure and the larger post-war history of “infrastructure” as a way of structuring military and financial relations. In addition to upgrading its hardware to this military-inspired real-time transaction processing system, Visa also decided to open a second data center to complement its operations in San Mateo. Stearns pointed out that the

…Main goal of creating the second data center was to provide a full, redundant backup system in another location. It would be somewhat wasteful, however, to leave that system dormant until the primary system failed, which was the common practice for redundant mainframes within a single center. Instead, while the IBM programming team was re-implementing BASE I on ACP, they also added the features necessary to run multiple, cooperative systems in parallel. This was rather innovative at the time, as none of the airlines had ever run more than one concurrent ACP installation. The dual-switch concept proved to be so successful that Visa eventually added major centers in England and Japan as well. All four centers run simultaneously, handling the authorizations for their given area, but the centers in the US and England can handle the entire world’s traffic alone if needed.

With an aim to enhance the security of their network, Visa selected a McLean a city in Virginia that was on the same telephone grid as the CIA. To further ensure the security of the automated system, Visa built a steel-framed building. The new building opened its doors in July 1977. 

Even with the construction of the massive, technologically advanced, supra-national bank credit infrastructure, the work of producing an environment amenable to the survival of this system was not finished. These new payment systems held “important structural and regulatory

599 Stearns, Electronic Value Exchange, 131.
600 Ibid.
601 Ibid.
implications.” Notably, economists Donald Jacobs and Almarin Phillips pointed to the rapid proliferation of bank credit cards and their payment networks as developments in banking meant to “circumvent existing regulatory constraints.” With these payment networks, large card-issuing banks did not need to open new branches in different states to increase their lending volume. Further to this point, because the new bank credit card associations were not ‘banks’ they could exploit state and Federal regulations by offering to connect member banks through agent agreements. In essence, the formation of these value exchange systems weakened existing regulations and allowed banks with the necessary capital to potentially extend their reach nationwide.

However, the systems themselves could not rewrite the regulations. Commercial banks with a vested interest in the growth and survival of these systems would need to cultivate a regulatory environment not only amenable to the privatization of this system, but also to the survival of the new focus on credit-money and consumer lending. In a 1979 interview, Dee Hock argued:

Sure, consumer debt is high, but if you want the consumer to stay out of debt, business and government have to set the example. If we expect consumers to reduce debt and increase savings, then we must create an environment without inflation and with tax laws that favor saving and not debt. After all, interest paid on debt is tax deductible and interest earned on savings is taxed. How can that encourage thrift? We should not criticize the consumer who is learning to play the government invented game of buying now through debt and paying later with inflated dollars.

The next chapter details how commercial bank lobbyists translated the banking environment for state and federal regulators and lawmakers, and help to constitute a banking environment amenable to the survival and growth to supra-national payment infrastructures. It was not enough for the banks to simply build the concrete installations, commercial banks and bank credit card associations also needed to produce the type of ‘social infrastructure’ to support their visions of facilitating every exchange of value in the world.


603 Ibid., 321.

As the American modernization theories of the 1960s promulgated by social scientists and taken up as part of US foreign policy professed and discovered, “development” required more than roads, irrigation systems, and modern communication networks. As evidenced in their experiments in India in the 1950s, economic development also required educational and institutional support. The combination of material and institutional supports reflect both the type of ‘environmental’ intervention necessary to sustain and facilitate the growth these large-scale digital infrastructures grow. As modernization theorists such as Talcott Parsons claimed, individuals and cultures, if introduced to American inspired political, economic, social, technological, and legal systems, will assimilate to these systems. In the case of the bank credit card infrastructure, bank officers and commercial bank executives had to both help introduce an organizational framework favourable to the economic growth and privatization of their payment network and try to assimilate people into an automated bankcard system.

The remaining chapters of the dissertation detail how commercial banks and bank credit card associations set out to actualize the social and institutional arrangement necessary to achieve their survival, profitability, supra-national growth objectives. Commercial bankers used techniques such as lobbying, credit-scoring, lawsuits, and policy writing to cultivate an external environment, that is, a banking environment amenable to realization of these objectives. The institutions maintaining this external environment (e.g., government, regulatory bodies, academics) often adopted the techniques and lobbying positions offered by bankers to sustain the existence of this new environment, favouring deregulation, lenient anti-trust regulations, and allowing the continued existence of predatory lending in the name of economic development and the survival of society.

5.8 Conclusion

The bank credit card associations were unique to banking but not a new type of organizational arrangement. Instead, their formation, organization, and philosophies are exemplary of the environmentality of the postwar period and mimicked the type of infrastructural arrangement established by NATO with its ‘Common Infrastructure Program.’ As the chapter illustrated, the organizational arrangements and philosophies guiding the bank credit card associations closely resembled those of the NATO ‘Common Infrastructure Program.’ The bank credit card associations represented historic alliances between commercial banks that joined together to
finance the construction of the fixed installations that could the growth of the bank credit card. The chapter also detailed how Dee Hock’s ‘chaordic’ organizational philosophy reflected the environmentality of the postwar period, placing an emphasis on environmental interventions and the rules of the game as opposed to the players.

This chapter highlighted that the current credit card ‘cyber-infrastructure’ grew out of a reaction to ‘personnel problems’ in payment processing that coupled with a growing awareness amongst bank executives of the capabilities of automation and the economic possibilities attached to forming a bank credit card association. ‘Paper floods,’ pregnancies, marriages, and unprocessed sales slips were at the heart of the payment system crises of the 1950s and 1960s. Responding to these technical and social challenges, both banks and the Federal Reserve looked for ways to pre-empt possible ‘personnel problems’ by investing in mechanization and automation technologies. Initially, these automation technologies were investigated to reduce the labor costs and employee turnover associated with payment processing. However, as research surfaced that suggested that these systems were modifying the banking environment, executives began to see an opportunity for not just cost reduction, but also economic development.

With over ninety percent of circulating currency in the form of ‘bytes’ as opposed to coins, banks began to invest heavily in the research and construction of electronic fund transfer (EFT) systems. NBI and Interbank opened BASE I and INAS in 1973, providing the first steps towards a national automated payment network. The systems operated on existing telecommunication lines, meaning that the bankcard associations were able to manipulate already existing variables in their environment in their pursuit of “every exchange of value in the world.” The construction of these systems clearly resembles NATO’s historic ‘Common Infrastructure Program,’ as commercial banks formed historic alliances to help secure the long-term future of their firm, including the formation of privatized automated banking networks to help the bank credit card expand first at a national and then international level.

Corresponding to the investment and construction of these joint-venture systems was a debate over ownership and control of automated clearinghouses. Small and medium-sized banks agreed with the Federal Reserve that the FED should continue to serve as the central interface between banks in the payment network. For their part, NBI and Interbank reflected the desires of large commercial banks to create a private and separate payment system. They deployed the neoliberal
argument that government control over a central system would be anti-competitive, hinder innovation, and hurt individual consumers and small businesses. Hock and Reynolds claimed that a FED controlled system eliminated possible innovation opportunities that would enable banks to become more competitive in the electronic value exchange market (i.e. payment market). Large banks and their bankcard associations framed themselves as disintermediaries, possessing the organizational structure, philosophy, technology and policies that made them capable of policing themselves.

Following the roundtable on EFT, attempts were made to place a moratorium on the development of these systems. As the moratorium efforts failed, NBI introduced BASE II, or the first centralized automated clearinghouse for debit and credit transactions. NBI also decided to change its name - perhaps to suit the increasingly international payment system - to Visa. Combined, Visa and MasterCard are on the front of 80% of credit cards. However, the work of bank credit card associations and commercial bankers was not finished, as they faced social, legal, and political challenges in their attempt to produce an environment amenable to their long-term survival and profitability.
Chapter 6
Translating the Deregulation Agenda

6 Lobbying as a Bank Management Strategy

In 1981, Delaware passed a law that gave banks broad new lending powers. For instance, the Delaware bill enabled banks to charge interest rates not subject to any legal ceiling and levy unlimited fees for credit card usage. Immediate support for these regulatory changes came from major out-of-state banks such as JP Morgan and Chase Manhattan. The support from these large out-of-state banks caught the attention of national news outlets, like the New York Times.

In their investigation of this new law, the New York Times discovered that many of the Delaware Democrats who sponsored the 61-page Republican bill had not even read it. In fact, Democratic Senate Majority Whip Harris McDowell III, who helped wrestle up support for the bill, confessed that he sponsored the bill despite a lack of “expertise in the banking area,” and the fact that he was “mystified by the bill.” McDowell, the State Democrats, and their staffs had not written the bill, and most had not read it before voting in favor of this sweeping legislation. The New York Times learned that Frank Biondi, a lawyer and lobbyist for Chase Manhattan, wrote the bill.

Thirty-five years after the passing of Biondi’s bill and the same year credit card debt surpassed $1 trillion, the Delaware State Chamber of Commerce presented Biondi a trophy (the Josiah Marvel Cup Award) celebrating him as the architect of credit-card capitalism. As this Delaware example demonstrates, bank lobbyists served an essential role in helping to actualize a

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‘deregulated’ legislative environment, that is, an environment that reduces regulatory constraints and transfers the authority of lawmakers and regulators from the state to the firm.”

Harvard business professor Francis Aguilar noted that hiring legal and financial professionals, often with the objective of altering a company’s external business environment, had become a trend in corporate America in the mid-1960s. Corporate lobbyists were becoming central to environmentality and attempts to pre-emptively alter those complex and interrelated spheres that make-up a corporation’s milieu. This chapter argues that commercial bank lobbying was an important strategy in the development of an environmentality approach to banking. Lobbyists translated the complex financial and economic plans for changing the environment of banking to legislators, regulators and the public. The chapter claims that the translations of the economy offered by bank lobbyists helped to produce the regulatory environment that facilitated the expansion and growth of the bank credit card infrastructure.

The chapter builds on the arguments of sociologist Randy Martin and Greta Krippner on the emergence of financialization. Krippner argues that financialization practices arose “as a response to the crisis conditions of the late 1960s and 1970s.” Meanwhile, Martin, much like Foucault, stresses that “preemption, bringing the future into the present, has since the late 1970s been the guiding principle of fiscal policy.” The chapter not only illuminates how bank lobbying became central to the emergence of financialization as a response to the inflationary crises of the 1960s and 1970s but also how lobbyists stressed that the government act preemptively in their fiscal policy. These changes advocated by bank lobbyists altered the US banking environment, which was critical to the development of the bank credit card infrastructure. The importance of using lobbyists to alter the banking environment is exemplified

612 Martin, An Empire of Indifference, 3.
by Visa CEO Dee Hock’s 1974 statement that “the pacing item is not technology” in the growth of the bank credit card infrastructure, “it's the structure of banking…”\textsuperscript{613}

### 6.1 Bank Lobbying as an Act of Translation

In November 1969, while NBI and Interbank were still in the early stages of development, William Bogie, one of the editors of \textit{Banking}, the periodical of the American Bankers Associations (ABA), wrote an article entitled, “When is a Lobbyist, Not a Lobbyist?” In the piece, Bogie sought to distance his readers from an understanding of lobbying as inherently nefarious and encourage a view of lobbying as the useful supply of “information on complex issues.”\textsuperscript{614} Adding to Bogie’s attempted reframing of lobbying, Willis Alexander, President of the ABA in 1969, suggested that lobbyists were “a resource which the legislatures use in an effort to regulate, equitably and fairly, various industries...”\textsuperscript{615} Alexander added, “The availability of expertise, experience, and knowledge of a given industry to members of a legislative committee...is certainly a matter of importance to the American people” and that “the availability of people with...some expertise...to those committees is frequently a benefit to the country.”\textsuperscript{616} Echoing Alexander, Thomas Rees a Democratic Congressman from California who served on the House Banking and Currency Committee, admitted in 1969 that “Frankly, when you’re involved in technical matters, you need these people for advice.”\textsuperscript{617} Acting as translators for lawmakers, these lobbyists sought, as Alexander points out, to provide “information to the members of a committee and their staff upon the potential impact which a given piece of proposed legislation will have.”\textsuperscript{618} These quotes illustrate how important figures in banking - such as an editor of \textit{Banking}, the President of the ABA, and an acting member of the House

\textsuperscript{613} “When the Achieve a Nationwide Electronic Funds Transfer System...”


\textsuperscript{615} Bogie, 31.

\textsuperscript{616} Ibid., 31.

\textsuperscript{617} Ibid.

\textsuperscript{618} Ibid.
Banking and Currency Committee – framed bank lobbying in the late 1960s as the act of translating the complex banking environment for lawmakers and regulators.

Sociologist of science Michel Callon describes translation as the “mechanism by which the social and natural worlds progressively take form.” Through the process of translation, translators establish themselves as spokespersons for “what others say and want, why they act in the way they do and how they associate with each other.” STS researchers highlight how translations are often portrayed as scientific - objective and apolitical - descriptions of the phenomena occurring in natural, social, or technological systems. However, as Callon explains, translations are not merely descriptions of complex social or natural phenomena but processes that seek to create networks and enrol a variety of actors, while also granting authority to translators to speak for others. STS researchers have continuously demonstrated how translation is an inherently political process.


Under an STS framework, ‘lobbying’ would also include the process of disseminating a translation with the aim of legitimizing and enacting this particular description, construction, and understanding of how a specific system operates. It also suggests a redefining of ‘lobbyist’ to include any actors enrolled as spokespersons or advocates for a particular translation. This chapter builds on this framework to demonstrate how in the 1960s executives, lawyers, consultants and economists, primarily representing the largest US commercial banks, were increasingly enrolled as spokespersons for a translation of the economy inspired by the Chicago School of economics.\(^{623}\) According to David Rockefeller, former chairman and chief executive of Chase Manhattan Bank and Ph.D. graduate in economics from the University of Chicago, central to the Chicago School’s translation of the economy was the belief that “government should not interfere at all with the market and the natural pricing mechanism.”\(^ {624}\) This translation of the economy, also used by NBI and Interbank during the EFT debates discussed in Chapter 5, advocated the removal of interest rate restrictions and geographic barriers, concentrating bank credit card debt in the large commercial banks and allowing these large banks to expand their credit card operations across the United States.

This chapter will describe how large commercial banks deployed three key lobbying tactics that all involved translation. The first was to foster close relationships between bank executives and key congressional leaders. These close relationships enabled bank executives to serve as spokespersons for translations of complex economic issues for high-ranking decision-makers. The second strategy was to have these elite bank executives make public statements and write editorials that disseminated translations of the economic and regulatory situation to the public. The third critical lobbying strategy of commercial banks was to push for long and expert studies with heavy bank consultation.

In tracing the enactment of these three strategies, the chapter pays special attention to, first to the one bank holding company (OBHC) debates, which pitted small banks against large banks, and


then second to the Hunt Commission, a long and expert study formed in 1970 by President Nixon with heavy consultation from executives representing large banks. The Hunt Commission codified the Chicago School translation of the economy into a legislative package and provided the blueprint for financial ‘deregulation.’ The passing of these recommendations not only strengthened the bank credit card infrastructure but the credit card found itself within the legislative package. As the chapter demonstrates, a group of moderately to very wealthy white male bank lobbyists worked with moderately to extremely wealthy white male government officials to propose a series of solutions to solve rising inflation, the lack of affordable mortgage credit, and discriminatory lending. The solutions they proposed did little to help those affected by these problems but did produce a regulatory atmosphere that helped the largest banks gain a greater share of the banking market and appeased the wealthy investor class. Before getting into the details about the OHBC debates or the Hunt Commission, the next section offers some background about the regulatory schema for banking in the postwar period so as to understand more fully the importance of the lobbying attempts to shift the regulatory environment beginning in the late 1960s.

6.2 The Banking Environment of the 1960s

On June 27, 1970, the Under Secretary of the Treasury, Dr. Charls Walker addressed the newly appointed members of the Presidential Commission on Financial Structure and Regulation. During his opening remarks, Walker noted that the Commission was meeting because of the “over-heating and the tight money situation of 1966 and 1969.” Inflation peaked in these two years at 3.8% (1966) and 6.9% (1969) pushing borrowing costs to a level not witnessed since the US Civil War. To Walker, 1966 and 1969 were examples of “trends ever since World War II


with respect to the flow of investments” away from areas heavily dependent on credit and
deemed of high social priority, such as housing. As a result, the Nixon administration tasked
the Commission with reviewing the banking laws and regulations that were first introduced in
the Bank Acts.

The Bank Acts of 1933 and 1935 largely shaped the banking environment of the 1960s. The
Bank Acts included provisions such as the decoupling of commercial banking from investment
banking, revised branching restrictions, federal deposit insurance, interest rate ceilings on
deposits, and provided the Federal Reserve with authority to adjust reserve requirements.
These provisions placed regulatory limits on bank powers. In terms of credit lending, the most
significant part of the banking legislation passed in the bank acts was Regulation Q.

As outlined in Chapter 2, Regulation Q prohibited the payment of interest on demand deposits
and gave authority to the Federal Reserve to set the interest rate for what banks could pay on
time deposits. These banking acts, as the second chapter detailed, coincided with the
introduction of New Deal policies that sought to use regulatory controls and policy innovations
to create new markets for home mortgages. To ensure the flow of funds into the housing
market, legislators provided thrifts with an interest rate ceiling differential over commercial
banks. The interest rate ceiling differential, combined with different tax laws and exemptions
from deposit insurance, was meant to protect thrifts from commercial bank competition, and
promote the housing objectives central to New Deal policy. In return for these regulatory
protections, thrift institutions could not direct their deposits towards investments outside of
mortgage lending – such as other types of consumer loans. The financial system emanating out
of the New Deal era worked to prevent larger banks from entering into direct competition with
smaller commercial banks and thrifts.

628 Walker, “Remarks, Commission on Financial Structure and Regulation.”
629 Vietor, Contrived Competition, 247.
630 Ibid.
632 Vietor, Contrived Competition, 250.
633 Hyman, Debtor Nation, 47.
From January 1st, 1936 to January 1st, 1957 the interest rate ceiling imposed on financial institutions remained unchanged at 2.5%. However, in 1957-1958 an economic recession befell the US economy, and the Federal Reserve raised interest rates as a means to slow down inflation. The Federal Reserve’s expansionary monetary policy in the early 1960s helped to keep interest rates low and prevent disintermediation. However, in December 1965, in a 4 to 3 vote, the Federal Reserve Board approved an increase in interest rates to use monetary policy to pre-emptively combat what it viewed as inevitable increases in inflation due to the fiscal policies of the Johnson administration. When interest rates began to rise, both banks and thrifts started to see deposits move out of the bank toward Treasury bills and commercial paper, a phenomenon referred to as disintermediation. In 1966, a potential disintermediation crisis followed this pre-emptive interest rate increase. Corporate bonds and Treasury bills were paying 8% interest, a rate much higher than the legally permitted 5% and 4.5% rates for passbook deposit accounts offered by thrifts and banks. As business historian Richard Vietor explains, “short-term rates exceeded both long-term rates and the interest rate ceilings for deposit accounts set by the Federal Reserve under Regulation Q.”

As Chapter 7 describes, with the emergence of anti-racist protests across the United States, in part due to discriminatory lending practices, the Johnson administration introduced the Housing and Urban Development Act of 1968. The act only increased the pressure placed on ensuring that

634 Andrew Brimmer, “Interest Rate Discrimination, Savings Flows, and New Priorities in Home Financing,” June 9, 1972, RG 56 Box 12, National Archives at College Park, College Park, MD.
639 Vietor, Contrived Competition, 260.
capital continued to flow towards housing. The Johnson Administration, to meet these housing objectives, proposed to expand the power of thrifts to offer non-housing forms of credit, such as consumer loans, hoping to increase the flow of funds into thrifts and the flows of affordable credit in the mortgage market.

Charls Walker, serving at the time as the Chief Lobbyist for the ABA, told bankers at the 1967 annual ABA conference that he would lead the greatest “grassroots campaign” in their association’s history to prevent the passage of any bills that sought to expand the powers of thrifts. However, the proposed expansion of the power of thrifts into non-housing forms of credit to meet new housing objectives was predominantly a concern of the smaller banks. At that same conference, First National City Bank laid out its position on the state of bank regulations.

First National City Bank’s position on the state of bank regulations helps to illustrate the political divide within the commercial banking community between small and large banks. It also reflects the basic position on bank regulations of the largest bank credit card issuers, which was a desire for less regulatory controls.

First National City Bank hosted the conference as their Vice Chairman, John Howard Laeri, assumed the position of ABA president. In his presidential address, Laeri warned the bankers in attendance that the “archaic restrictions and antiquated attitudes” of bank regulators had “hobbled” commercial banks. Laeri declared that he saw his year as ABA president as “largely an opportunity to speak out on the question of excessive banking regulation.” Herein lay the divide in the banking community. Small banks feared the loss of regulatory protections, whereas bank officers at large commercial banks who had caught the Chicago School ‘virus,’ such as

642 Ibid.
643 “Bankers Seek Credit Restraints.”
Laeri, welcomed the increased competition. They saw the concerns over disintermediation as an opportunity to expand bank powers and reduce the regulatory constraints placed on financial institutions first enacted in the bank acts of the 1930s.

6.3 One-Bank Holding Company

One approach undertaken by large banks, such as First National City Bank, to increase their supply of deposits was the one-bank holding company (OBHC). One-bank holding companies formed out of an exemption in the 1956 Bank Holding Company Act. The 1956 Act sought to address the growth of corporations holding a 25% stake in two or more commercial banks. The Act required holding companies to divest themselves of the control of all non-banking and non-bank-related corporations. One-bank holding companies, or holding companies that owned 25% or more of the stock of only one commercial bank, were exempt from the provisions set out in the 1956 Act. The exemption provided a loophole that large banks would later exploit to help them subvert regulatory controls on the types of services they could offer and businesses they could operate.

Despite the Federal Reserve Board’s concerns with the exemption, the one-bank holding company (OBHC) was relatively inconsequential even in the mid-1960s. However, Congressional sentiment on OBHCs changed in 1968. Beginning in 1967, large banks such as the Union Bank of Los Angeles and the Wachovia Bank of North Carolina formed OBHCs. A year later, in July 1968, First National City Bank announced the formation of the First National

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644 The New York Times reported that James Meigs, a former Ph.D. student of Milton Friedman, had also brought the Chicago School ‘virus’ to First National City Bank in the 1960s when he was hired as the vice president of the bank’s economics department, Marylin Bender, “Chicago School Goes to the Head of the Class,” The New York Times, May 23, 1971, sec. Business and Finance, p. 3.

645 Zweig, Wriston, 239.

646 “Summary of the Background of Development of the One-Bank Holding Company Problem and a General Outline of the Principle Points to Be Included in a Legislative Resolution on This Problem,” February 18, 1969, EX FG 267 Presidential Commission, Richard Nixon Presidential Library.

647 The reason for this perspective was the relatively small size of these OBHCs. In 1955, 115 OBHCs held only $12 billion in bank deposits, a decade later there were 385 more OBHCs, but the deposit base grew to just $15 billion. With OBHCs holding on average less than $30 million in deposits, Congress did not buy the Federal Reserve Board’s claim that the OBHC loophole presented a danger to the US financial and economic structure, Ibid.

648 Ibid.
City Corporation, a OBHC that it claimed gave the bank “greater flexibility” and the ability to expand its geographic reach.\(^\text{649}\) Thanks to the formation of OBHCs by multi-billion dollar banks such as First National City Bank by 1968 there were nearly 800 OBHCs that controlled over $100 billion in deposits, which was an $85 billion increase in deposits from 1965.\(^\text{650}\)

The OBHC issue divided the ABA. Small banks worried about the ability of these larger banks to geographically expand their financial service offerings, while large banks viewed the OBHCs as a means to diversify their business practices. Much like the debates over expanding the powers of thrifts, Walker again sided with the smaller banks, which continued to be the loudest voices in the room at the ABA. Walker sought to construct a compromise between the Federal Reserve, legislators, and ABA members on the OBHC issue.\(^\text{651}\) Large banks were not interested in making compromises with regulators, legislators, and small banks over OBHCs.\(^\text{652}\)

With political debates only beginning to erupt over OBHCs, Americans elected Richard Nixon into office. Charls Walker, soon to be confirmed as Under Secretary of the Treasury, recommended David Kennedy, Chairman of the Continental Illinois Bank, for the position of Treasury Secretary. Kennedy was known as a moderate but was also the Chairman of the eighth largest bank in the US, a large OBHC, and a bank heavily involved in the formation of the country’s first bank credit card association.\(^\text{653}\) To convince Kennedy to take the position, George Moore (Chairman, First National City Bank) phoned him on Thanksgiving Day, November 28\(^\text{th}\), 1968.\(^\text{654}\) The next day it was announced in the press that Kennedy had accepted the nomination. Joining Kennedy and Walker at the Treasury Department were Robert Mayo, also from First Continental Illinois, as Director of the Budget and Paul Volcker (Vice President at Chase Manhattan) as Under Secretary for Monetary Affairs.\(^\text{655}\) Moore’s involvement in convincing

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\(^{649}\) Zweig, \textit{Wriston}, 236.

\(^{650}\) “Summary of the Background of Development of the One-Bank Holding Company Problem and a General Outline of the Principle Points to Be Included in a Legislative Resolution on This Problem.” Zweig, \textit{Wriston}, 238.

\(^{651}\) Ibid.

\(^{652}\) Ibid.


\(^{654}\) Zweig, \textit{Wriston}, 240.

\(^{655}\) Ehrlichman, \textit{Witness to Power}, 88-89.
Kennedy to accept the cabinet position highlights the lobbying strategy of his bank of maintaining close relationships with key decision-makers to help install individuals into influential political positions that shared translations of the economy they supported.656

Following the appointment of these bankers from large commercial banks to the top positions in the Treasury Department, Nixon named Paul McCracken in early December 1968 as his chairman of the Council of Economic Advisers.657 McCracken had graduated with a doctorate in Economics from Harvard University in 1948.658 At Harvard, McCracken met Nixon’s close friend and confidante Gabriel Hauge, President of Manufacturers Hanover Trust, and former economic adviser to Eisenhower.659 McCracken represented a form of ‘liberal Republicanism,’ describing himself as Friedman-esque, advocating for the Chicago School’s position of reduced regulatory constraints and that governments should place more importance on monetary policy and government austerity to combat inflation.660

The other central economic advisers were Dr. Arthur Burns and Peter Flanigan. Burns held a doctorate in economics from Columbia University where he served as a mentor to Milton Friedman and as Alan Greenspan’s Ph.D. supervisor before Greenspan dropped out.661 Burns was considered a Keynesian due to his promotion of the business cycle and in many ways was an opponent of Milton Friedman and the Chicago School’s translations of the economy.662 Flanigan


660 “McCracken Appointment Viewed as Liberal Omen.” 28; Bender, “Chicago School Goes to the Head of the Class,” 3.


was a Princeton educated investment banker who in 1968 served as Nixon’s deputy campaign manager before being appointed as a presidential assistant. These newly appointed officials had the difficult task of navigating the OBHC issue and the emerging questioning by the large commercial banks of the structure and regulations of the US financial industry.

Just months after Nixon took office, the *New York Times* ran an article detailing the OBHC debate. The newspaper noted that OBHCs held more than 40% of bank deposits in the US. In February 1969, Congressman Wright Patman, a populist Democrat from Texas and Chairman of the House Banking Committee introduced a bill to legislate OBHCs. As historian Nancy Beck Young explains, Patman was concerned about what he viewed as the increasing “concentration and combination of bank ownership with insurance providers, credit card companies, and other competing entities…He looked at the holding company…as the source of this trend.” The Patman bill sought to force all OBHCs to divest themselves of any businesses not related to banking, for any new bank acquisitions to be subject to review by the Federal Reserve and sought to make the bill’s provisions retroactive to 1956.

Patman’s bill was deeply unpopular with the OBHC community, as it could have potentially forced all of the new large OBHCs to disband. To counter the Patman bill, Charles Walker drafted an Administration version of OBHC legislation. Within the White House, Arthur Burns reported that it was clear in Walker’s February 22nd presentation of his bill that he was “too involved emotionally.” Walker’s tenuous relationship with First National City Bank over the

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OBHC issue provides insights into why the Administration’s bill was retroactive to June 30, 1968, the month before the formation of the First National City Corporation.\textsuperscript{669}

Both the Patman and the Administration bill went into committee in the House of Representatives on April 15\textsuperscript{th} with hearings running until May 9\textsuperscript{th}. The OBHC debates resulted in an intensification of bank lobbying on Capitol Hill. George Moore (Chairman, First National City Bank), adhering to his bank’s lobbying strategy of gaining public support for their translations of the economy, flew to Washington twice to visit the offices of the Washington Post, the Wall Street Journal, and the New York Times and met with reporters to discuss the OBHC bills. Executives at other large banks such as Chase Manhattan and Bank of America decided to increase their lobbying presence in Washington, a move that helped to push the number of registered commercial bank lobbyists from less than a handful in 1968 to over 30 by the end of 1969.\textsuperscript{670} Bank lobbyists representing small and large banks filled the committee hearing room and during a markup session for the OBHC bill were able to move the prohibition date from June 1968 to February 17\textsuperscript{th}, 1969.\textsuperscript{671} Jack Yingling called this victory a fluke, which he did not expect to go unaddressed.\textsuperscript{672}

### 6.4 The Intensification of Bank Lobbying

On November 5\textsuperscript{th}, 1969, Patman introduced amendments to the OBHC bill that saw the grandfather date moved back to 1956. Yingling pointed to the “bad odor of banking” as the prime reason that the amendments were able to pass through the House of Representatives.\textsuperscript{673} While waiting for the Senate to take up the OBHC bill, magazine articles were published that portrayed bank lobbying as an act of translation. In November 1969, amidst the OBHC debates, William Bogie wrote, “When is a Lobbyist, Not a Lobbyist?,” which framed bank lobbying as an act of translation, and lobbyists as providing information on ‘complex issues’ to lawmakers and

\begin{itemize}
\item \textsuperscript{669} Frank V. Fowlkes, “Washington Pressures/The Big-Bank Lobby,” 298.
\item \textsuperscript{671} Frank V. Fowlkes, “Washington Pressures/The Big-Bank Lobby,” 298.
\item \textsuperscript{672} Ibid., 299.
\item \textsuperscript{673} Ibid. 299.
\end{itemize}
regulators. William F. Buckley’s *The National Review* also joined the bank lobbying discussion. The *National Review* ran a five-page article on the topic of bank lobbying in December 1969.

The article stated that the ABA was largely ineffective in its lobbying efforts, which included applying pressure to individual congressional representatives and providing campaign contributions. During the late 1960s, the ABA urged its members to begin to look at ‘statesmanship’ or lobbying as an intelligence job. Bank lobbyists had to become experts on banking, financial regulations, policy-making, and individual legislators through data collection, analysis, and forecasting. The ABA would then relay this intelligence information to the bankers on their “contact bankers” list. These bankers were mobilized and tasked with befriending their local congressman and state legislators and conveying the industry’s position on main issues. If a friendly conversation was not enough to sway the congressman or state legislator’s opinion, banks were willing to offer bank stock and board membership to gain political favours. The New York Bar Association reported in 1969 that 96 House members were either bank officers or bank stockholders, with a third of these members serving key roles on committees such as the Banking and Currency Committee. The article noted that the ABA had grown its lobbying efforts to include a half a dozen lobbyists and 41 employees working in Washington.

It also interviewed First National City Bank’s chief Washington lobbyist Jack Yingling to gain insights into the lobbying strategies of the largest commercial banks. Yingling told *The National Review* that his main task was to act as an intermediary between the Executive Branch of government, key congressional leaders, and George Moore, the chairman of his bank. Yingling noted that his bank considered their executives as lobbyists and that utilizing executives to lobby government leaders was a common tactic of other large banks such as Chase Manhattan

677 Pine, “Banking Lobby.”
679 Ibid.
Bank. These executives received translations from in-house experts and translated these complex financial and economic analyses for Government leaders.

A second integral element of the large bank’s lobbying effort was to advocate for Administration Bills that were the product of “long and expert study,” usually with heavy consultation with banking interests. Finally, Yingling claimed, “the most important factor determining Congress’ reaction to a bill… is not the number of contacts and the amount of pressure the lobby can bring to bear, but the climate of public opinion prevailing at the time the bill is considered.”

Yingling’s response highlights the key strategies of the large commercial bank lobby, which collectively aimed at expanding the network of congressional and public support for the bank’s translation of the US financial system. It also highlights how the category of bank ‘lobbyist’ included a group of interrelated actors such as executives, lawyers, and professional lobbyists.

Despite claims to the contrary, Yingling’s bank did use generous financial offerings as a lobbying tactic. In July 1969, the Wall Street Journal uncovered that First National City Bank during the OBHC debates had provided the House banking committee member Seymour Halpern a $40,000 unsecure loan at a prime-lending rate usually reserve for its top corporate customers. When asked how the loan might influence his vote on the holding company legislation, an indignant Halpern replied, “If they ever ask for a favour, I would spit in their face – absolutely!”

Shortly after receiving the loan, the Wall Street Journal reported that Halpern joined a coalition of Republicans and Southern Democrats to “scrap the Patman bill and further soften a milder regulatory measure suggested” by the Walker bill.

Accompanying these lobbying strategies was the implementation of the more aggressive management orientation in these large commercial banks discussed in Chapter 4. By the late

\[680\] Ibid., 298.
\[681\] Ibid.
\[682\] Ibid.
\[684\] Ibid.
1960s, First National City Bank had adopted a more aggressive management orientation. At First National City Bank, following the consultations with TEMPO, Walter Wriston set a bold objective of a 15% yearly earnings growth. The potential expansion of commercial bank powers and services, such as the formation of bank credit card associations, offered these large banks significant opportunities to meet their aggressive profit objectives. As the next section details, while the OBHC legislation seemed destined to restrict bank powers, executives from large commercial banks such as Wells Fargo, Chase Manhattan, Manufacturers Hanover Trust, and First National Bank of Chicago consulted heavily with the Nixon administration in the formation of a Presidential Commission tasked with restructuring the US financial system.

6.5 Proposing a Long and Expert Study

While the amended OBHC bill, which contained the 1956 date, made its way to the Senate, the Nixon administration made a concession to the large commercial banks. On January 8th, 1970, Paul McCracken, David Kennedy, and Robert Mayo – the Troika - sent a memo to Nixon that claimed that the time had come “to consider seriously a Presidential Commission on Financial Structure and Regulation.” Presidential commissions were ad hoc groups of government-appointed members gathered to investigate economic or social problems. They were formed to provide a long, expert and objective study of the issue under investigation. Commissions sponsored expert research, hired experts to guide and inform the investigation or invited experts to speak on the topic under scrutiny.

Economist Roland Robinson – once in consideration as an expert staff member for the Hunt Commission – claimed that commissions acted as platforms for the “wide dissemination of “expert” or better informed opinion… A commission thus may aim at long-run persuasion rather than short-run action.” Robinson’s claim shows the underlying reason behind why large

685 Kipping and Westerhuis, “The Managerialization of Banking.”
686 Zweig, Wriston, 361.
commercial banks advocated for 'long and expert' studies. As Robinson outlined, these expert studies through the use of scientific legitimacy and the mass dissemination of expert translations aimed at growing a congressional and public network of support for specific translations.

At the first meeting to discuss the organization of the Commission on January 23rd, 1970, the Troika decided that Walker would be the official responsible for the Commission. At the second meeting on February 3rd, the Troika alongside Walker began to lay out the mandate and agenda for the Commission and a list of possible members. Early names listed as potential members included notable commercial bankers and monetarists such as Gabriel Hauge, David Rockefeller, Milton Friedman, Carter Golembe, Almarin Phillips, and K.A. Randall. With regards to the establishment of the Commission’s agenda, those in attendance decided that an ‘Economists Brainstorming Session’ composed of both academic and industry economists would help “assist in defining a mandate” and “assist in defining appropriate issues and methodology.”

This expert brainstorming session was also looked upon to help “provide some candidates for staff director.” The staff directors would be responsible for providing expert translations of the American financial system to Commission members.

The first recommendation for Reed Hunt to serve as Chair of the Commission came from Richard Cooley, President of Wells Fargo, in a letter to Flanigan dated February 11th, 1970. With a desire to pick a chairperson from the West Coast, Hunt’s name appeared again in a letter to Flanigan from Charls Walker. The letter quoted Cooley as suggesting that Hunt was hard-headed, not a financial man, but was a commercial bank director. Hunt had served on the


691 Ibid.

692 Ibid.


Board of Directors of large commercial banks such as Pacific National Bank, Crocker Citizens National Bank, and the Canadian Imperial Bank of Commerce.\footnote{Ibid.}

On April 4\textsuperscript{th}, 1970, Bryce Harlow counselor to the President, wrote Flanigan to inform him that Gabriel Hauge had lobbied him to convince Flanigan to announce the appointment of Hunt as chairman in time for the meeting of the Association of Reserve City Bankers taking place on April 6\textsuperscript{th} and 7\textsuperscript{th}.\footnote{Bryce Harlow, “Memo to Peter Flanigan,” April 4, 1970, EX FG 267 Presidential Commission on Financial Structure and Regulation, Richard Nixon Presidential Library.} Hauge’s recommendation to Harlow is notable because the President had not approved of Hunt until April 7\textsuperscript{th}. The President was convinced to accept Hunt as Chairman only after consulting with David Rockefeller (Chairman, Chase Manhattan) on April 7\textsuperscript{th}.\footnote{Peter Flanigan, “Memo to Dwight Chapin,” April 8, 1970, EX FG 267 Presidential Commission on Financial Structure and Regulation, Richard Nixon Presidential Library.}

At this juncture, a letter from First National Bank of Chicago Chairman Gaylord Freeman to Flanigan also reveals the importance placed on scientific legitimization by the large banks. Writing to Flanigan, Freeman noted that at the Reserve City Bankers meeting Senator John Sparkman, chairman of the Senate Banking Committee, the same committee reviewing the OBHC legislation, “created the impression that he was quite willing not to hold hearings if anyone in a position of influence suggested a postponement pending the work of the President’s Commission.”\footnote{Gaylord Freeman, “Letter to Peter Flanigan,” April 8, 1970, GEN FG 267 Presidential Commission on Financial Structure and Regulation, Richard Nixon Presidential Library.} As a result, the large bank chairman lobbied Flanigan to announce the Commission members quickly because he felt that the “Commission’s objective analysis… might very properly warrant a postponement of the consideration of that legislation."\footnote{Ibid.} Restating the importance of an ‘objective’ analysis based on the translations of economic experts, Freeman described the Congressional attitude as “more punitive than objective.”\footnote{Ibid.} The involvement of Hauge, Rockefeller, and Cooley with the selection of the Chairman of the Commission and Freeman’s emphasis on the Commission’s ‘objective analysis’ demonstrates two of the key tactics of commercial bank lobbying. It highlighted both the importance placed on

\footnote{\textsuperscript{Ibid}.}
the establishment of a close relationship with the Executive Branch of government and the banks’ preference for a ‘long and expert’ study with heavy bank consultation.

The Economists Brainstorming Session took place on April 29th, 1970 and featured twenty-three academic and industry economists that discussed the aims of the Commission. Walker reporting on these meetings claimed that the economists in attendance were “almost unanimous in agreeing that Regulation Q…should be eliminated.” The other issues discussed were the regulation of bank branching, interest payments on demand as well as savings deposits, and OBHCs.

As planned, Walker identified the economists from the brainstorming session he wanted to serve as the staff directors for the Commission. Out of these economists, Walker hired Donald Jacobs from Northwestern and Almarin ‘Al’ Phillips from the University of Pennsylvania as staff directors. The selection of these economists as staff directors provided a further reaffirmation of the direction and agenda of the Commission. Phillips and Jacobs had a track record of acting as spokespersons, or lobbyists, for the Chicago School’s translation of the US economy.

Both Jacobs and Phillips in the mid-1960s had declared that the commercial banking industry needed more competition and less regulation. Phillips was by far the most outspoken of these economists on the issue of the liberalization of bank regulations and controls. In April 1966, speaking in front of the Wilmington Economic Discussion Group in Delaware, Phillips argued that to “remedy the problem of American banking” he would “give free rein to the same competitive forces allowed other business firms.” Later that year, serving as an expert in a debate in Florida on the merits of branch versus unit banking, Phillips agreed that bank holding companies did represent a move toward concentration and monopoly, but that this was not a bad

phenomenon. Phillips stated that in his expert opinion, “the real treasure of monopoly is the quiet life.”

The translation of the economy espoused by Phillips and Jacobs reflected the political and intellectual framework of the Chicago School of economics. Essential to the Chicago School’s translations of the economy was a faith in the efficiency of liberalized free markets coupled with the profit-maximizing intentions of rational economic actors. According to this Chicago School translation of the economy, to ensure consumer welfare in the form of low prices, the authority of lawmakers and regulators should be transferred from the state to the firm, allowing for a type of self-policing guided by competitive market forces and the profit motive. It was a translation of the economy also promoted by the executives at the largest commercial banks such as Walter Wriston and David Rockefeller.

The next task for the Commission organizers was to comb through the list of 700 nominees for Commission membership. Walker and Flanigan created a nineteen member Commission (members, staff directors, organizers). Members included:

1. Morris D Crawford (Chairman, Bowery Savings Bank, New York)
2. J Howard Edgerton (President, California Federal Savings and Loan Association)
3. Richard G Gilbert (President, Citizens Savings)
4. Alan Greenspan (President, Townsend-Greenspan company)
5. Walter Holmes Jr. (President, CIT Financial Corporation)
6. Lane Kirkland (Secretary Treasurer, American Federation of Labor and Congress of Industrial Organizations)
7. Rex Morthland (President, Peoples Bank and Trust Company)
8. William Morton (President, American Express)

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9. Donald MacNaughton (Chairman, Prudential Insurance Company)
10. Ellmore Patterson (President, Morgan Guarantee Trust Company)
11. K.A. Randall (Vice Chair, United Virginia Bankshares, Inc.)
12. Ralph Regula (Attorney, Ohio)
13. Raymnd Saulnier (Professor of Economics, Barnard College)
14. Robert Stewart (Chairman, First National Bank of Dallas)\(^{708}\)

All told, out of the Commission’s nineteen members there were seventeen Republicans, with over 30 percent of members having ties to the commercial banking industry. This type of Commission make-up was not unique to the Hunt Commission. A similar commission structure was witnessed with the New National Industrial Pollution Control Council. The Washington Post noted in late April 1970 that Nixon had searched “among some of the nation’s leading polluters to find men to keep an eye on the pollution problem.”\(^{709}\) The newspaper reported that the Council was composed of the chairman and presidents of major oil, automobile, coal, timber, electric, power, airline, and manufacturing companies.\(^{710}\)

On June 27\(^{th}\), 1970, the Commission held its first meeting. While the Commission held its meetings, OBHC legislation passed uneventfully on New Year’s Eve 1970 with the Walker grandfather date of June 30\(^{th}\), 1968.\(^{711}\) The amended bank holding company act gave the Federal Reserve a set of general guidelines to follow to determine “the business of banking.”\(^{712}\) The bill forced First National City Bank to divest itself of its travel agency, consulting, and insurance business interests, but did enable the large New York City bank to stay in the finance and leasing


\(^{710}\) Ibid.

\(^{711}\) Moore, The Banker’s Life, 251.

business. Despite losing these business interests, the OBHC bill passed unexcitingly, and attention turned to the Hunt Commission and the formulation of its report.

On March 22nd, 1971, Walker wrote to Flanigan to provide an update on the progress of the Commission. The memo noted that in January several Commission members were unhappy with the Commission’s progress. Walker indicated that Commission members Ellmore Patterson and William Morton had contacted him in January to voice their displeasure with Hunt who they felt was not providing the Commission with proper direction. Walker told Flanigan that he was not surprised by this reaction as he had deliberately planned with Hunt to move the Commission “through a careful but thorough settling down period.” The early ‘settling down’ period of members was designed to achieve two goals.

The first objective of this period was to educate the members. As Walker noted, “Since the background and knowledge of the members were very uneven, an educational period was necessary…” In line with this first educational objective was the second deliberate tactic that Walker had planned with Hunt. Walker wanted to ensure that the “members would not get the idea that the report would be a staff rather than member-prepared document.” As a result, while some members were frustrated that the educational session seemed directionless, the staff “laid low intentionally,” at the direction of Walker and Hunt.

Walker and Hunt’s strategy demonstrates how expert translations are not merely descriptions of complex social or natural phenomena but a process that seeks to create networks and enrol a variety of actors. These strategies articulated a deliberate move by Walker and Hunt to use

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713 Moore, The Banker’s Life, 251.
715 Ibid.
716 Ibid.
717 Ibid.
718 Ibid.
719 Ibid.
Jacobs and Phillips to ‘educate’ or provide an expert translation of the US financial system to enroll Commission members into the network that accepted and disseminated their Chicago School inspired translations of the US financial system. However, the direction given to staff directors to ‘lay low’ was also meant to ensure that enrolled members did not form the impression that the report was the exclusive domain of the expert economists.

Released on December 15th, 1971 the final report stated that its recommendations were intended to help the United States:

…Move as far as possible toward freedom of financial markets and equip all institutions with the powers necessary to compete in such markets. Once these powers and services have been authorized, and a suitable time allowed for implementation, each institution will be free to determine its own course.  

Written by Jacobs and Phillips, the report represented a blueprint for the reduction of regulatory constraints or “deregulation” of the US financial system. Freedom in the report, as a practical matter, referred to the overarching recommendation to grant commercial banks and savings and loan association the authority to move into each other’s former areas of concentration, removing many of the regulatory constraints on the powers of financial institutions first enacted in New Deal era legislation.

The report recommended a ten-year phase-out of Regulation Q and interest ceilings on time and savings deposits to provide market rates for FHA and VA loans. It also called for the removal of interest rate ceilings for conventional mortgage loans. The report also recommended a single tax formula, uniform reserve requirements, mandatory membership to the Federal Reserve, and the ability for commercial banks to operate mutual funds and engage in the same activities as bank holding companies.

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723 Ibid.
724 Ibid.
As a trade-off for the removal of these competitive protections, the report recommended giving thrifts expanded lending and operational powers, including the ability to invest in stocks, and offer checking accounts, and most importantly to issue credit cards.\textsuperscript{725} With bank credit card associations, dominated by the largest commercial banks, the entry of thrifts in the credit card market only offered a greater opportunity for these large banks to expand the reach of their associations and increase the network effects of the bank credit card. ‘Deregulation,’ as it was proposed in the Hunt Commission report, would serve to facilitate the expansion of the bank credit card infrastructure.

Throughout its report, the Commission made clear its philosophical orientation and close adherence to the Chicago School translations of the economy. Its starting point in formulating its recommendations was the belief that in “our free society, although Congress may establish national goals, the marketplace must, in one fashion or another, provide the means to pursue these objectives.”\textsuperscript{726} According to the Commission, echoing the sentiments of executives from large banks such as First National City Bank, the solution to the inflationary crises of 1966 and 1969 was to “strip away [the] large body of law and regulation” guiding the banking industry.\textsuperscript{727}

Jacobs and Phillips’ outlined the mindset of the commission in a later publication. In their article, the two economists suggested that the US financial system needed policy changes not only because of inflation-induced increases in interest rates but also because of the effects that new technologies were having on the financial environment. Jacobs and Phillips argued that the introduction of computer-based technologies (e.g. electronic fund transfer systems) helped financial firms circumvent the existing regulatory constraints on banking.\textsuperscript{728} In particular, they helped these firms increase the types of financial products they could offer and evade the geographic boundaries established by branch banking legislation. There were two such

\textsuperscript{725} Ibid.
\textsuperscript{727} Ibid.
\textsuperscript{728} Jacobs and Phillips, “THE COMMISSION ON FINANCIAL STRUCTURE AND REGULATION,” 320.
innovations they pointed to as having the most profound effect in highlighting the outdated nature of existing regulations, bank holding companies and the mass issuance of bank credit cards.\textsuperscript{729} Jacobs and Phillips argued that both of these innovations in banking justified a new regulatory structure for the US financial system.

6.6 Response and Analysis

Walker noted in a memo written for Flanigan that the Treasury would be taking on an experienced ‘Washington hand’ to help develop “recommendations with Congressmen and staff, within the Executive Branch, and with the industries that will be affected by legislation.”\textsuperscript{730} The skilled Washington had referenced in the memo was Richard Erb. Erb had received his Ph.D. in economics at Stanford and had worked for Salomon Brothers before joining the Nixon Administration in 1971 as the Assistant Director of International Monetary Affairs.\textsuperscript{731} After receiving feedback from the heads of several affected agencies, Erb wrote Flanigan with his initial analysis of the legislative ‘do-ability’ of the finished report.

Erb claimed that the uniqueness of the report was not its ideas; there were in fact very few new ideas. Its uniqueness lied in its attempt to combine the recommendations into logical whole that provided a “blueprint for future changes in the financial system.”\textsuperscript{732} However, in contrast to Walker and Flanigan, Erb claimed that the atmosphere was not right for a complete overhaul of the US financial system. He warned Flanigan that any attempts to implement these recommendations as a package would result in the continued ‘political war’ between large banks, smaller banks, and non-bank depository institutions.\textsuperscript{733}

As a result, Erb stated that the main task for the Administration was to try to translate the

\textsuperscript{729} Ibid.

\textsuperscript{730} Charls E. Walker, “Memo to Peter Flanigan, Subject: The President Is Receiving the Committee on Financial Structure and Regulation,” May 6, 1971, EX FG 267 Presidential Commission 1-1-71, Richard Nixon Presidential Library.


\textsuperscript{733} Ibid.
recommendations to non-experts effectively. Erb explained:

The report was written by economists and thus is at a relatively high level of abstraction. This is a disadvantage when trying to explain it to the business community or Congress. For example, the idea of competition in the report is used in its purest form: as read by the small town banker, competition turns out to be the big city banker encroaching on his territory. Erb was apprehensive that the business community and Congress would mistranslate the economists’ abstract notion of ‘competition.’ He feared that as opposed to seeing competition as producing favorable outcomes and enhancing consumer welfare, lawmakers and the public would interpret the report’s recommendations as primarily designed to allow large banks to enter into direct competition with small banks and savings and loan associations.

Erb recognized that gaining support for this legislative agenda required a concentrated effort from government spokespersons to translate the Commission’s recommendations to avoid these ‘misinterpretations.’ Erb recommended that the Administration translate the abstract government policy recommendations in such a way that emphasized consumer welfare and recognized that ‘savers’ (underlined in the memo) were as important as borrowers. In other words, he advised Flanigan to translate the Commission’s report in a way that was aimed at growing a public network of support for the Commission’s recommendations and not to expect support from most of the institutions affected by the Commission’s recommendations.

Erb’s analysis proved to be correct. The thrifts immediately voiced their concerns over the report’s recommendations. Grover Ensley, the head of the National Association of Mutual Savings Banks, wrote to Wright Patman, lobbying Patman that the Commission had put forward proposals that would create a system where “other financial institutions could not compete with big commercial banks.” Ensley argued that the Commission came to these results because it was largely composed of members with ties to large commercial banks, and held only secret meetings, with no hearings or public voice.

734 Ibid.
735 Ibid.
737 Ibid.
Norman Strunk of the US Savings and Loan League remarked that the Commission’s report mistakenly pointed to government financial regulations as the driving force behind the 1966 and 1969 inflation crises. In his opinion, the Vietnam War and fiscal mismanagement caused the inflation of those years. Morgan Earnest of the Home Builders Association also spoke out against the report. Earnest claimed that the phase-out of interest rate ceilings “would continue and possibly exacerbate an unstable flow of funds into the mortgage credit market” and suggested that the Commission had not properly understood the realities of mortgage lending. These representatives of the institutions affected by the report offered a vastly different translation than the translation published in the Hunt Commission report.

Meanwhile, one hundred and sixty bankers came to the Chicago Marriott Motor Hotel in early January 1972 to get an interpretive analysis of the report from the ABA. Hunt Commission member K.A. Randall provided the translation, telling the bankers in attendance that “the housing problem was like a ghost at the side of the room for a year and a half.” Unlike the report itself, which stressed the importance of housing, Randall told the bankers that during deliberations the “Commission decided…that housing should not be the dominant factor in restructuring our financial system.” Instead, Randall claimed that the focus of the Commission was finding a way to “better serve social needs by not warping the financial system simply to serve housing, but rather by developing a free, competitive market and focusing on how we can make the system work better.” Randall’s presentation to ABA members presented an image of a Commission focused on crafting a blueprint for “deregulation” or expanding the powers of financial institutions and removing regulatory constraints.

Randall argued that to meet this goal, the Commission recognized that it would need to produce

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739 Ibid., 26.

740 Ibid., 27.

741 “Summary and Interpretive Analysis of the Report of the President’s Commission on Financial Structure and Regulation” (American Bankers Association, May 8, 1972), RG 56 Box 12, National Archives at College Park, College Park, MD.

742 Ibid.

743 Ibid.
a report filled with compromises, especially to the small banks and thrifts, and as a result, “no member of the Commission likes the report in its entirety.” 744 Initially, the ABA offered its support for the recommendations. 745 However, that soon changed after it met with its membership. The Los Angeles Times reported that when the ABA later voiced its opposition to the Hunt recommendations, it was because “the little banker had the bigger voice within the association and the ABA did not wish to present two faces to the public.” 746

Hunt Commission members also came forward after the report’s release to criticize the policy package. Lane Kirkland was the only Hunt Commission member to dissent to the report as a whole. He stated in January 1972 that the “basic thrust of these recommendations is designed to promote the interests of private financial institutions without any genuine regards for the most urgent problems and needs of the nation.” 747 The community representatives, Edward Malone (General Electric) and William Morton (American Express), took issue with a proposed tax credit offered to mortgage lenders, believing that this subsidy would “seriously distort normal credit flows and relationships among various types of credit instruments.” 748

Howard Edgerton and Richard Gilbert who served as representatives of the savings and loan associations also released statements that contradicted Walker’s earlier reports to Flanigan that early education sessions had produced near unanimity amongst Commission members. Edgerton claimed, “divergent opinions on some issues in the report were held by individual commissioners. These differences existed when the commission began its work, and they still exist.” 749 In particular, Edgerton claimed that there was not unanimous agreement over removing regulatory protections and interest rate differentials between financial institutions. Gilbert

744 Ibid.


747 “Presidential Commission Report: Recommendations Cover The Full Spectrum of Financial Structure and Regulation” (Savings & Loan News, January 1972), Box 534A, LBJ.

748 Ibid., 30.

749 Ibid.
asserted that had deliberations not taken place immediately after the inflationary crisis of 1969 the final report would have looked much different.\footnote{Ibid., 31.}

With the release of these statements, it became clear that Jacobs and Phillips had not enrolled some commission members into a network that supported the translations of the economy offered in the Hunt Commission report. It also became clear there was little support emanating from affected institutions for the Hunt Commission’s blueprint for restructuring the US financial system. Trade associations representing commercial banks, mutual savings banks, and savings and loan associations joined five of the Commission members in publically voicing their dissent to this package. A policy package once viewed as ‘do-able’ appeared lifeless even before the Administration had time to put forward legislation for consideration. Notwithstanding vocal opposition, the Treasury Department moved forward with their attempt to present the President with legislation borne out of the Hunt recommendations. STS sociologist Michel Callon claims that the widespread acceptance of a translation is often a long process of trial and error, reconfigurations, and reformulations.\footnote{Callon, ““What Does It Mean to Say That Economics Is Performative?”, 14.}

Between 1968 and 1972, at the same moment that a wave of banks were entering the credit card market and forming bankcard associations, the US financial system came under intense scrutiny and faced many challenges. As the previous sections detailed, the debate over how to confront these purported problems - such as OBHCs, potential disintermediation, and providing affordable credit for housing – led to the formation of the Hunt Commission. The bank credit card, although not the central focus of the Commission, played a pivotal role in the Commission’s final report. As the Commission’s economists noted, the bank credit card, along with OBHCs, represented a major challenge to the existing regulatory regime guiding the US financial system, as they enabled banks to extend the geographic reach of their operations and the types of services they could offer consumers. Also, the Commission offered thrifts the possibility to issue bank credit cards as a concession for removing most of the regulations that prevented large banks from competing with them directly. It is clear that while housing was presented as the central issue for the Commission, the bank credit card was an item that to the
Commission represented the future of banking (i.e., automated and geographically expansive). However, as the previous section highlighted, the Commission’s report was not well received by those parties affected by their recommendations, leaving commentators to speculate that the Hunt Commission would have little impact on the regulatory structure guiding the US financial system.

The Treasury Department, notwithstanding this skepticism, assembled a research team led by Walker to put together legislation. Joining Walker were Flanigan, Richard van Dusen (Under Secretary of Housing and Urban Development), Ezra Solomon (Economist, Hunt Commission member), Arthur Laffer (economist, recent Ph.D. graduate from Stanford), and Howard Beasley (assistant to the Treasury Secretary, Ph.D. in finance). Beasley was the co-leader of the task force and produced damning empirical evidence that contradicted the central claims and translations of the US financial system found in the Commission’s report.

In a February 1st memo to Charls Walker, Beasley reported his findings on ‘Banks Participation in Mortgages – 1966, 1969.’ Beasley started the report by claiming “data do not support the commonly held view that banks cease making mortgage loans during periods of tight money.”

In his research, Beasley found that in 1966 real estate loans made by banks had increased by 9.5%, while total deposits had only increased by 6.4%. Beasley’s findings meant that real estate loans as a percentage of total deposits had increased during the inflationary crisis of 1966, from 14.9% to 15.3%. Thus, for 1966 Beasley concluded, “banks did not withdraw from the mortgage market, but rather increased their lending 7.7%.” Regarding savings and loan associations, Beasley’s research indicated that they had increased their real estate loans by 3.5% in 1966.

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753 Howard Beasley, “Memo to Charls Walker, Subject: Banks’ Participation in Mortgages - 1966, 1969,” February 1, 1972, RG 56 Box 12, National Archives at College Park, College Park, MD.

754 Ibid.

755 Ibid.

756 Ibid.

757 Ibid.
These surprising findings were also valid for the inflationary crisis of 1969. Beasley’s report to Walker stated, “as in 1966, banks did not withdraw from the mortgage market in 1969, but increased their mortgage lending 7.5% which was equaled by the savings and loan associations’ increase of 7.5%.\textsuperscript{758} The findings showed that financial institutions not only did not decrease the flow of funds into the mortgage markets but actually “maintained a relatively constant rate of growth in conventional mortgages.”\textsuperscript{759} In fact, conventional mortgage holdings of banks increased by 54.5% from 1965 to 1970.\textsuperscript{760} The translations offered by expert economists in the Department of the Treasury suggested that Walker’s claim and the stated central objective guiding the Commission were not based on empirical evidence. Instead, it became evident that the objective of the Commission was based on a translation of the economy that claimed that banks cease making mortgage loans during periods of tight money. With this evidence in hand, coupled with public statements from trade associations and Commission members voicing their opposition to the Hunt package, the chances of passing a sweeping legislative package through Congress seem nil to none.

According to the Research Institute of America, a leading expert in finance policy and legislation, by late spring 1972 the Hunt Commission report was “suffering from rigor mortis.”\textsuperscript{761} However, interest in the Commission’s report and its recommendations resurfaced when the Federal Reserve decided in late July 1972 to deny the attempt by OBHCs to purchase savings and loan associations. The press release from the Federal Reserve noted that it had decided “not to include at the present time operation of savings and loans associations on its list of activities in which bank holding companies may engage.”\textsuperscript{762} It is within this climate that the first large commercial bank offered its assessment and lent its public support to the Hunt Commission recommendations.

\textsuperscript{758} Ibid.
\textsuperscript{759} Ibid.
\textsuperscript{760} Ibid.
\textsuperscript{762} “Press Release of the Federal Reserve Board” (Federal Reserve Board, August 3, 1972), RG 56 Box 12, National Archives at College Park, College Park, MD.
In First National City Bank’s July 1972 issue of their Monthly Economic Newsletter, the bank published a story called, “The Hunt Report - an Agenda for Counterreformation.” The story began by providing a translation of the US financial system that claimed that overprotective regulations had “long hobbled the savings and credit markets” and emerged out of the Great Depression due to a “gross misunderstanding of the working of monetary and fiscal policy.” The Newsletter made clear that the ‘misunderstanding’ or mistranslation of the economy had produced regulations such as interest rate ceilings that had amplified and aggravated the “money crunches of 1966 and 1969.”

The story claimed that the Hunt Commission, guided by a proper translation of the economy, had recommended proposals for “diminishing the heavy reliance on government regulation.” The story was careful to note that the major beneficiary of these comprehensive reforms, aimed at reducing government regulation, was the general public. It claimed that “the public - which probably does not much care whether banks or thrift institutions grow faster – assuredly would be the major beneficiary of more competition” and that the “efforts of the Hunt Commission will not be lost if the Congress can maintain” this perspective. The perspective outlined in the story was that a more valid translation of the economy could be found in the Hunt Commission’s report, which claimed that a reduction in financial regulations aimed at fostering greater competition between banks and thrifts would lower prices and enhance consumer welfare.

Richard Stewart, the bank’s Senior Vice President and General Counsel, sent this story to Richard Erb. Erb, despite the evidence produced by the Hunt Commission research task force, praised the translations of the Hunt Commission recommendations offered by the lobbyists for First National City Bank. In late July, Erb responded to Stewart stating that the article was “well written, as usual, and strengthened our convictions that it is worth the effort we are putting into

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764 Ibid., 7.
765 Ibid., 9.
766 Ibid., 12.
it.

Erb proposed that the two “meet and talk again” when the task force responsible for putting together Hunt based legislation had a firmer idea of what recommendations they would like to turn into legislation. Despite major opposition to the Hunt Commission report and the empirical evidence produced by the Hunt Commission research task force, the Newsletter had strengthened the convictions of the government team tasked with assembling a legislative package based on the Hunt Commission’s recommendations.

The Hunt Commission presented the US financial community with a significant alteration to the postwar banking environment. As a result, those financial institutions that benefitted from regulatory protections such as small banks and thrifts vehemently opposed the enactment of most of the recommendations presented by the Commission. The negative reaction of these institutions to the Treasury Department’s framing of the Hunt Commission’s recommendations as fixing the US financial system turned out to be well founded. As the section highlighted, the team of academic experts tasked with examining the report’s recommendations discovered evidence that contradicted the central claims that supported the report’s legislative package. These researchers found that money continued to flow into the housing market during the inflationary crisis, essentially obviating any need to move forward with the Hunt Commission as a comprehensive legislative package.

Notwithstanding both internal and external calls to not move forward with the Commission’s recommendations, the Treasury Department, thanks in large part to the support offered by Citibank, did proceed with the drafting of legislation based on the Commission’s report. Citibank supported the report’s recommendations because it would help the bank enter into direct competition with the smaller banks and thrifts, which would potentially allow them to gain a greater share of key banking markets such as business and consumer lending. The passing of a legislative package inspired by the Hunt Commission offered banks like Citibank a significant opportunity to make considerable gains in the consumer lending market, especially in credit card lending, where they could not only expand the reach of their bankcard associations but also potentially begin to issue credit cards across state lines without the need for an agent bank. As a


768 Ibid.
result, as the following sections detail, large banks placed an increased emphasis on lobbying in an attempt to actualize this Hunt inspired banking environment.

6.7 The Financial Institution Act of 1973

By early spring 1973, no legislative recommendations had been put forward by the Administration, and the largest American commercial banks were experiencing profit increases thanks to a “massive increase in loan volume.” However, in June 1973, Arthur Burns, now the Chair of the Federal Reserve, wrote to Nixon to voice his concerns and impress upon the President the need to address domestic economic issues. Burns told Nixon, “the investor class -- investment bankers, brokers, managers of investment funds, managers of pension funds, and the great body of individual investors -- are in a seriously depressed mood.” According to Burns, at the heart of the investor class’s concerns was the “sharply accelerated pace of our inflation” and its impact on reducing the value of investment capital or savings.

Large commercial banks held the largest aggregate of investment funds in the United States. Jeffrey Bucher, member of the Federal Reserve Board of Governors, noted in a speech in September 1973 that commercial banks served as the administrators of the “largest aggregate of investment funds in the country - $292 billion in 1970, $343 billion in 1971.” These investment funds were highly concentrated in the 50 largest banks in the country. As financial journalist Chris Welles remarked in Institutional Investor, large banks, thanks to OBHCs, were cornering the money management market, handling the capital of the investor class.

With concerns of the investor class growing, on August 3rd, 1973 the Administration released its

771 Ibid.
772 Jeffrey Bucher, “The Punctiliiol of an Honor the Most Sensitive” (Federal Reserve, September 21, 1973), National Archives at College Park, College Park, MD.
“Recommendations for Change in the US Financial System.” However, the Treasury Department did not immediately release the specifics of its proposed legislation. Instead, it opted to release a narrative version of the legislation. Deputy Treasury Secretary William Simon maintained that the decision was made to simply introduce the proposals in narrative form because “the complex and controversial nature of the proposals assures that they won’t be enacted this year and perhaps won’t even be enacted next year.”

In presenting this narrative version of their legislative package, the Treasury Department was establishing itself as a spokesperson for the translations of the economy advanced in the Commission’s report. The advance release of the narrative was also an attempt by the Administration to grow a public network of support for this translation and these recommendations.

The narrative presented by the Treasury Department reiterated the Commission’s claim that a greater emphasis on free-market competition and less “rigid and unnecessary regulation” was in the public interest. The narrative claimed that the “consumer-saver was denied a fair market return on his savings, while the consumer and small businessman, as borrowers, often could not obtain adequate funds to meet their requirements.” The narrative again took aim at interest rate ceilings, claiming that these ceilings were “harmful to Americans both as savers and as borrowers in the late 1960s.”

Through this narrative approach, the Treasury Department had translated the proposals aimed at restructuring the financial system and presented them in a way that sought to appeal to ordinary Americans. The narrative stressed the need to consider the legislative proposals as a package, and not as piecemeal recommendations. The package included major legislative overhauls such as the removal of Regulation Q over a 5 1/2 year period, the removal of FHA and VA interest rate ceilings, expanded deposit, investment, and lending services for federally chartered

775 “Nixon’s Proposed Banking Overhaul to Trigger Long Fight in Congress” (Savings Banker, September 1973), Box 1056A, LBJ Library.
776 Department of the Treasury, “Recommendations for Change in the US Financial System,” August 3, 1973, RG 56 Box 12, National Archives at College Park, College Park, MD.
777 Ibid.
778 Ibid.
779 Ibid.
thrifts and banks, and a modification of the tax structure for financial institutions.\textsuperscript{780}

Later that month, the Independent Bankers Association of America (IBAA) announced in its newsletter that it would be mounting an all-out effort to protect small banks from the “whirlpool of legislative proposals distilled by the Administration from the Hunt Commission report.”\textsuperscript{781}

Presenting an alternative translation of the interest rate and inflation crises, Fred T. Brooks the IBAA President claimed that inflation was “aggravated by policies of the federal regulatory agencies which encourage concentration of control of resources in both banking and thrift institutions.”\textsuperscript{782} The IBAA was not the only trade organization to come out against these provisions. The Home Builders Association, the National League of Insured Savings Associations, and the U.S. Savings and Loan League either rejected the Treasury’s narrative proposal outright or urged prolonged study before the introduction of any legislation.\textsuperscript{783} Despite these concerns, the Department of the Treasury released its proposed legislation on October 11\textsuperscript{th}, 1973.\textsuperscript{784}

Two major events during this period only increased Americans concerns over inflation. The first was the decision in 1971 by Nixon to eliminate the gold standard and introduce flexible exchange rates. As sociologist Nigel Dodd explains, the flexible exchange rate regime had a devastating effect on labor as “states tried to secure their currencies by forcing down wages.”\textsuperscript{785} The other major international event was the decision by the Organization of Petroleum Exporting Countries (OPEC) to raise oil prices and introduce an embargo on oil to the United States due to the US support of Israel during the Yom Kippur War.\textsuperscript{786} As historian Meg Jacobs suggests, the

\textsuperscript{780} Ibid.
\textsuperscript{781} “Newsletter: Independent Bankers Association of America” (Independent Banker Association of America, August 27, 1973), Box 1138A, LBJ Library.
\textsuperscript{782} Ibid.
\textsuperscript{783} “Nixon’s Proposed Banking Overhaul to Trigger Long Fight in Congress.”
\textsuperscript{784} “Financial Institutions Act of 1973” (Department of the Treasury, October 11, 1973), RG 56 Box 12, National Archives at College Park, College Park, MD.
OPEC oil crisis triggered another inflationary crisis in the United States and confirmed for Americans that their “government didn’t work.”\footnote{Jacobs, \textit{Panic at the Pump}, 9.} Rising oil prices and the subsequent increase in inflation worked in the favor of those seeking to convince the general public, regulators, and legislators that less government regulation was the solution to combating inflation.\footnote{Mitchell, \textit{Carbon Democracy}, 180; Jacobs, \textit{Panic at the Pump}, 21.}

Even with the introduction of flexible exchange rates and the onset of the OPEC oil crisis, \textit{Business Week} reported in early November 1973 that Nixon’s plummeting popularity and the lack of support from various trade associations “left the Hunt proposals with hardly a friend on the political horizon.”\footnote{“What Went Wrong With Financial Reform?” (Business Week, November 3, 1973), Box 1056A, LBJ Library.} Representative Thomas Ashley, a Democrat on the House Banking Committee, told \textit{Business Week} “there’s no future to the Hunt Commission recommendations at this time – none.”\footnote{Ibid.} Even though large commercial banks, such as Citibank, had the support of the Executive Branch of government and an expert study that advocated expanding bank powers and reducing regulatory constraints, they still did not have a large public and congressional network of support for their translation of the economy. Opposition from the other depository institutions prevented the bill from moving out of the committee stage in 1973.\footnote{David L. Mason, \textit{From Buildings and Loans to Bail-Outs: A History of the American Savings and Loan Industry, 1831–1995} (Cambridge University Press, 2004), 208.} While the bank credit card associations worked to build their technological capacities, the Hunt proposals did not disappear, highlighting again that the widespread acceptance of a translation is often a long process of trial and error, reconfigurations, and reformulations.\footnote{Callon, “‘What Does It Mean to Say That Economics Is Performative?’”, 14.}

Within days of Gerald Ford assuming the office of the President, Arthur Burns wrote him to warn him of the dangers of inflation. Burns advised Ford that the nation was in the “grip of a dangerous inflation.”\footnote{Arthur Burns, “Memorandum, Arthur Burns to the President,” August 12, 1974, Box B24, Gerald R. Ford Library.} In particular, Burns remarked that the outlook for homebuilding was
poor, as thrifts were losing deposit funds. As historian Richard Vietor explains, revenues for financial institutions were being “outstripped by the rising interest costs of attracting new deposits,” exposing these financial institutions to a high level of “interest-rate risk.” However, by 1974, 65 million Americans were using their bank credits cards to pay for more than $13.8 billion of commodities. As a resident of New Orleans told the New York Times, “I use my credit cards every chance I get. That way, you can stall paying awhile.” Despite rising fears that banks would stop lending due to interest rate restrictions and inflation, consumers continued to increase their use of credit cards as a means of payment.

Not long after Burns’ letter to Ford, the Ford Administration introduced the Financial Institutions Act of 1975. In the Act’s preamble, the Administration stated, “Five years ago, a Presidential commission undertook the study of the problems experienced by financial institutions. In 1973, the conclusions of this study led to the introduction of the Financial Institutions Act.”

President Ford’s message to Congress maintained the narrative of the Commission’s supporters stating, “the experience of the past several years shows that such ceilings penalize the small saver, and reduce the volume of savings available to finance homebuilding.” The 1975 bill once again failed to make its way through Congress. This time the Senate passed the bill but it was unable to pass through the House. Thanks to the counter-lobbying efforts of dissenting groups, such as the affected trade associations, Hunt informed banking bills did not pass despite repeated attempts by both the Nixon and Ford administrations. According to Norman Strunk of the US Savings and Loan League, the lobbying success of trade associations against Hunt bills

Ibid.

Vietor, Contrived Competition, 261.


Department of the Treasury, “The Financial Institutions Act of 1975: A Bill to Expand Competition, Provide Improved Consumer Services, Strengthen the Ability of Financial Institutions To Adjust to Changing Economic Conditions, and Improve the Flow of Funds for Mortgage Credit,” March 19, 1975, RG 56 Box 12, National Archives at College Park, College Park, MD.

Ibid.

Mason, From Buildings and Loans to Bail-Outs, 208.

Mason, 208.
was primarily due to a cooperative relationship between organizations such as the Federal Home Loan Bank Board and savings and loan associations. 801

The repeated failures to actualize a less regulated financial system demonstrated that the public and congressional network of support for the Commission's translations of the US financial system continued to remain somewhat diminutive. These failures only further motivated the lobbying efforts of the largest commercial banks. At the 1975 ABA annual meeting, Wriston, Clausen, and Gaylord Freeman sat on a special panel in front of 2000 commercial bankers. 802

The three bankers chastised the banking community for being too passive and not serving as community leaders. Freeman urged the bankers in attendance to realize that they were uniquely qualified to advise regulators and legislators on financial and economic matters. 803 Clausen agreed with Freeman, and proposed that the solution to regulatory challenges was to communicate “accurately the complexity of our world.” 804 All three bankers concurred that the public needed to be made aware of the contributions of capitalism and the benefits of the profit motive in growing the nation’s economy. 805

Meanwhile on Capitol Hill, in March 1976, the Wall Street Journal reported that bank lobbyists were presenting consistent and unyielding pressure. 806 A staff member on the House Banking Committee admitted to the Wall Street Journal, “many Congressman are afraid of bankers. They don’t understand banking, but they know the world can collapse if the bankers turn the screws on lending.” 807 Senator William Proxmire stated simply that the bank lobby was “viewed as the

803 Ibid.
804 Ibid.
805 Ibid.
807 Ibid.
toughest strongest lobby in Washington.”

Commenting on the scene on Capitol Hill, Carter Golembe noted that the bank lobby was “a much more formidable force in Washington than a decade ago.” The *New York Times* reported that banks were spending millions of dollars now on an interrelated group of lobbying specialists such as lawyers, economists, and public relations officers. While the ABA introduced Operation Unravel in 1977 to roll back or modify “burdensome laws and regulation” and prevent the enactment of further regulations, Wriston lobbied President Carter’s Treasury Secretary W. Michael Blumenthal.

On June 26th, 1978 Wriston wrote the Treasury Secretary to both applaud him for making inflation a top priority and warn him of the dangers of implementing price controls to combat inflation. In his letter, Wriston recalled his experiences during New York’s 1975 fiscal crisis and stated “when in the end it turned out we were right, the question was then raised as to why we did not exercise our expertise earlier and “blew the whistle” faster.” Building on this point, Wriston warned Blumenthal that the bank would not “fail this time on a national level to call attention to a situation on which we have much knowledge and expertise.” He closed the letter by stating bluntly that to combat inflation, “only an attack on the fundamentals will work.” According to Wriston, the only solution to the inflationary crisis was an attack on “the fundamentals” and the adoption of the Chicago School translation of the economy that opposed price controls advocated by his bank’s experts.

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809 Hume “He Believes Banks, Regulators Too Cozy,” 6A.


811 Ibid.


814 Ibid.

815 Ibid.
The bank lobby’s increased lobbying presence, the ABA’s Operation Unravel, and Wriston’s call for an attack on the economic fundamentals that he perceived as guiding the federal government’s regulation of the US financial system happened at the same time that the bank credit card infrastructure was expanding rapidly. NBI and Interbank, as described in Chapter 5, had built the cyber-infrastructures to support a nationwide and eventually global private payment system. Americans were also using their credit cards at a rapidly expanding rate. By 1974, 65 million Americans were using their bank credits cards to pay for more than $13.8 billion of commodities. In fact, from 1976 to the end of the decade bank credit card use tripled. However, high-interest rates along with federal and stated mandated interest-rate restrictions kept profit margins for the credit card narrow. A government conversion to the Chicago School’s translation of the economy, as advocated by bankers such as Wriston and Clausen, would potentially reduce the cost of money (i.e., lower interest rates) while also removing any federal or state impetus to maintain restrictions on the level of interest rate a bank could charge borrowers. As the following sections outline, the conversion to the Chicago School approach did lead to lower interest rates and the removal of interest rate restrictions at both the state and federal level. However, accompanying these changes was massive unemployment and a greater reliance amongst people living in the United State on debt. For the largest bank credit card issuers these changes represented a win-win, or very profitable, modification of the banking environment.

### 6.8 Passing the Deregulation Agenda Into Law

In July 1979, Jimmy Carter nominated Paul Volcker to serve as Chair of the Federal Reserve Board. According to historian Peter Conti-Brown, Volcker started his tenure as Federal

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816 Allan, “As Prices Soar, Bank-Card Use Jumps.”


Reserve Board Chair tentatively.\textsuperscript{819} However, on September 7\textsuperscript{th}, 1979 the Federal Advisory Council (FAC), a committee comprised of a dozen bankers, met with Federal Reserve governors. Wriston was a member of the FAC and at this meeting urged the Federal Reserve governors to change the Federal Open Market Committees operating procedures to ensure that “monetary aggregates take priority over concerns about further upwards moves in domestic interest rates.”\textsuperscript{820} A month later, on the evening of October 6\textsuperscript{th}, 1979 Volcker took a monetarist turn and announced that the Federal Reserve was no longer going to attempt to manage the day-to-day level of the federal fund rate. Instead, it would shift its focus to controlling the amount of bank reserves in the system.\textsuperscript{821}

The policy drove the country into a severe recession, as inflation peaked in March 1980 at 11.6\%.\textsuperscript{822} Amidst this environment of increased lobbying pressure, skyrocketing interest rates, rising consumer debt, and massive unemployment, the network of supporters for the Chicago School’s translation of the economy grew. Carter and prominent liberal leaders like Ted Kennedy and Ralph Nader lined up in support of ‘deregulating’ the airline, trucking, and telecommunication industries.\textsuperscript{823} Financial ‘deregulation’ measures, building off this support for less regulation in other industries, finally made their way through Congress.

On March 31\textsuperscript{st}, 1980 Congress passed “The Depository Institutions Deregulation and Monetary Control Act” (DIDA). DIDA was immediately heralded as the most significant change to bank regulations since the 1930s.\textsuperscript{824} The act contained many of the recommendations of the Hunt Commission such as allowing savings banks to increase the interest rates they paid depositors for their deposits but to diversify their lending practices to include consumer loans and credit cards.

\begin{flushright}
\textsuperscript{822} Ibid.
\textsuperscript{823} Jacobs, \textit{Panic at the Pump}, 170.
\end{flushright}
In exchange for these expanded powers, came a phase-out of the regulatory protections provided to savings and loan associations such as interest rate differentials and controls. DIDA was a significant modification to the banking environment and carried with it substantial legislative profits. After the passing of the bill, commercial bank portfolios experienced on average a 3.9% gain in their returns, whereas other depository institutions lost approximately 4.4% of their value.

Finance professors David B. Humphrey and Lawrence B. Pulley assert that after an initial period of adjustment to the new regulatory atmosphere of the early 1980s, large commercial banks began to experience significant profits gains. After a long process of trial and error, reconfigurations, and reformulations, bank lobbyists advocating for the Chicago School’s translation of the economy, encapsulated by the Hunt Commission report, had actualized a financial regulatory regime that reflected these translations. Bill Maurer suggests that “deregulation in banking and finance permitted an explosion of new financial products and relationships” and helped to create within the social imaginary the impression that circulation had displaced production.

The actualization of a regulatory environment influenced by Chicago School translations of the economy resulted in significant profit gains for the largest American commercial banks. These banks were also the largest bank credit card issuers. These changes not only helped these banks gain a greater share of the banking market but also helped to cultivate a banking environment amenable to greater future profits, as they led to massive unemployment, removed interest rate restrictions, and provided the freedom for commercial banks to expand their service offerings. The section highlights how officers and executives at the largest commercial banks played a crucial role in realizing these regulatory changes and cultivating this new banking environment.

However, federal regulatory changes were insufficient by themselves to generate a profitable bank credit environment. Changes at the state level would also be required.

6.9 State a Minute!

At the state level, banks in the credit card market started to exploit the differences in state regulations by the late 1960s, with interest rate ‘exporting’ and ‘renting.’ The practice went unchecked until 1969 when a resident of Iowa received and used a BankAmericard from a bank in Omaha and another from a bank in Chicago. The residents later came to find out - upon opening their monthly statement - that these out-of-state banks were charging the interest rate of their home state (which was higher) than the rate legally permitted in Iowa. After taking the issue to court, multiple courts ruled in favor of the banks, making it at least appear legal for banks to ‘export’ interest rates. However, even with interest rate ‘exporting’ and ‘renting,’ Dee Hock reported in 1979-1980 that most bank credit card operations were in the red. The losses were not from lack of use.

Many cardholders remained ‘convenience’ customers, meaning that they paid off their balance in full at the end of each month. In 1978, most credit card operations were profitable, but just barely. Even though American consumers held $339 billion in outstanding personal debt that year, and Master Charge was reporting that it processed $6.6 billion in transactions in the first quarter alone, the profitability of bank credit cards took a major hit in 1979. The bottom line of most credit card operations was walloped by an increase in the prime interest rate and strict state usury laws.


832 The ‘Prime Rate’ is the interest rate usually reserved to a bank’s most credit-worthy customer, such as large corporations. It is the benchmark calculated by banks based off the federal funds rate and the
By March 1980, Dee Hock declared that the situation for the bank credit card was dismal. Hock explained: “If the prime rate continues at its current level - and there are no signs it is going down - the situation will continue to get worse.” The solution according to Hock was “immediate action by state legislatures [to increase the interest rates bank can charge on their credit cards], some banks will have to seriously consider whether they want to continue offering this service to the public at all.” States had to modify their regulatory environment or the credit card issuers would stop lending. The remedy proposed by Hock was also the one promoted by lobbyists representing large banks such as Bank of America, JP Morgan, Citibank, Chase Manhattan, Chemical Bank, and Manufacturers Hanover Trust: deregulate the US financial system at both the State and Federal level.

Citibank decided to use jobs to leverage favorable state banking conditions, pitting the State of New York against the government of South Dakota. In November 1980, Citibank announced that it was planning on moving its entire bank credit card operation, consisting of 2500 jobs, from New York to South Dakota. The decision to move the credit card operation to South Dakota was based on an agreement reached between the bank and the Governor and Legislature of South Dakota, where the bank promised to introduce jobs to the state in exchange for a more likelihood of default. A high prime rate and a low usury rate created a scenario where banks felt they could only lend to low-risk customers (i.e. customers with limited profit-potential) Karen W. Arenson, “The Consumer Credit Spiral,” The New York Times, July 29, 1979, http://www.nytimes.com/1979/07/29/archives/the-consumer-credit-spiral-recession-or-no-americans-still-put.html.


Ibid.


Ibid.
Consequently, South Dakota became the first state in January 1980 to exempt all regulated lenders from the state’s interest rate limits. In response to Citibank’s decision, Stanley Fink, the speaker of New York’s State Assembly declared that the “deregulation of rates would be necessary to attract the new type of banking industry, which depends more on computers and telecommunications links than it does on proximity to its market.” Much like Jacobs and Phillips discovered, Fink recognized that the banking environment had changed; it was a ‘new type of banking industry.’ It also highlights the relationship between the development of the bank credit card infrastructure and the deregulation of the US financial industry at both the state and federal level.

The potential flight of large commercial banks to these regulatory safe havens put pressure on state banking regulations. By 1983, forty-four states had either relaxed or removed interest rate restrictions to prevent bank flight and to retain a competitive state economy. The changes at the state and federal level - led and supported by the largest commercial banks in the US - helped create a political environment necessary to produce an expansive and profitable bank credit card infrastructure.

6.10 Conclusion

The bank lobby’s unyielding efforts to actualize a ‘deregulated’ banking environment demonstrates the stakes that commercial banks placed on altering their political and regulatory environment. Beginning in the late 1960s, as banks entered into the bank credit card market en masse and bankcard associations were being formed, bank executives began to turn their attention to modifying their external environment. To alter their regulatory environment banks and bankers not only increased the sheer number of lobbyists on Capitol Hill but also began to

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838 Meislin, “Citicorp Insists It Will Move Card Unit to S. Dakota; Citicorp Affirms Move to S. Dakota Meeting Held With Bankers A Pledge to South Dakota No Direct Answer on Job Loss.”

frame lobbying as an act of translation.

A particular instance that highlighted the influence of the bank lobby was the formation and passing of the Hunt Commission recommendation. The Hunt Commission and its deregulation philosophy was guided, written, pushed for, and helped passed by bank lobbyists. The translations of the economy codified in the Hunt Commission report helped to produce a banking environment at both the state and federal level that turned a marginally profitable credit device into a trillion dollar payment infrastructure. An infrastructure whose market continues to be dominated by the very same large commercial banks that lobbied so vociferously for this deregulated financial environment.
Chapter 7
Institutionalized Racism and Credit Card “Equality”

7 Institutionalized Racism and Credit Card “Equality”

By the 1960s, consumer debt had become so woven into the fabric of everyday US life that President Lyndon Johnson declared it “an essential feature of the American way of life.” In the twenty years after WWII, consumer debt in the United States had a growth rate that was four and a half times greater than the rate of the US general economy. Although gaining in accessibility, consumer credit was still difficult, if not impossible, to obtain from banks and major department stores for non-white and non-male borrowers in the late 1950s and early 1960s. For most people that were not white men, credit was usually only available from exploitative financial institutions, informal loan economies, or through their spouse.

However, the mass entry of commercial banks into the bank credit card market in the mid-1960s changed the lending landscape in the United States. This wave of banks entering into the bank credit card market helped the bank credit card become the first ‘mainstream’ credit device to offer ‘equal credit opportunities,’ providing previously underserved populations with an easily accessible source of perceptibly easy credit. Two factors helped lead to the decision to target what bank officers called ‘high-risk’ consumers. The first, as described in Chapter 4, was that by the mid-1960s planning techniques had helped convince commercial banks that they could take on greater lending risks. As this chapter reveals, these management techniques were paired with a campaign by bank credit card issuers and bankcard associations to frame bank credit cards as credit devices that promoted equality and the democratization of credit.

The second factor leading to the targeting of minority populations for credit relations, using Bank of America as an example, was the adoption of an environmentality approach to management amongst American bank executives. Environmentality, as explained in Chapter 4, provided bank executives and managers with a systems-based or ‘environmental’ understanding of their surrounds, revealing the world as complex, crisis-ridden, and inter-connected. The

840 Democratic National Committee, “Truth in Lending: Operation Support.”
environmental framework provided executives with a perspective that connected their firm’s future profitability to external factors not under their business’s direct control or ownership. The chapter sketches how this ‘environmental’ perspective instilled in A.W. “Tom” Clausen (Bank of America’s President, 1970) the importance of pre-emptively producing external environments conducive to long-term ‘corporate performance,’ which he claimed was a combination of corporate social responsiveness and stable profits. In the case of Bank of America, ‘environmentality’ pushed the bank in the early 1970s to emphasize a series of minority hiring and credit lending practices that sought to be both profitable and quell the anti-racist and student protests happening throughout its home state of California. This campaign reflected the wider trend happening in the United States of promoting greater access to debt as a solution to institutionalized and systemic discrimination.

Also included in this chapter is a discussion of how environmentality encouraged banks such as Bank of America, as well as NBI (Visa) and Interbank (MasterCard), to campaign for legislation and regulations that legitimized color- and gender-blind statistical credit scoring techniques. These techniques were designed not to eliminate systemic discrimination but rather intentional forms of lending discrimination. The chapter highlights how the democratization of credit and the promotion of these color- and gender-blind techniques pushed many smaller banks and department stores out of the credit card market due to the costs associated with implementing these credit-scoring techniques and over fears of being charged with intentionally discriminating against potential borrowers. The chapter concludes by detailing the rise of our contemporary ‘dual credit card market,’ describing how the introduction of securitization practices led to a massive infusion of capital for banks to try to lend profitably. This chapter helps to explain how institutionalized and systemic discrimination played a central part in the development of the bank credit card infrastructure, and how non-white and non-male populations in the United States became further entrenched in predatory lending arrangements.

### 7.1 A Segregated Debt Environment

Most people in the United States, as mentioned earlier, were assimilating to the changes to the postwar economy, relying more and more on debt to make ends meet and to purchase consumer goods. The US economy was booming, and the wealth being created lifted many people out of poverty. However, the postwar United States remained a nation divided by race. Jim Crow laws
persisted in many states and counties, and redlining kept neighborhoods segregated. Any attempts to protest the apartheid-like conditions of America’s inner cities were met with police violence and white backlash. As activists for racial equality mounted a concerted effort to end race based violence and discrimination, the economic landscape of the United States continued to transform.

Between 1959 and 1965, the number of people living in poverty in the United States decreased. However, in the years immediately before civil rights acts, while the overall number of people living in poverty decreased, the number of black households living in poverty increased from 27.5% in 1959 to 31% in 1965. By the mid-1960s almost half of white workers were employed in white-collar jobs, compared to only 22.8% of black workers. The majority of black employment was in blue-collar industries, and increased automation in blue-collar industries led to massive black unemployment and under-employment in the postwar period. All told, unemployment rates were two - sometimes even three - times higher for black workers than white workers.

Adding to the employment strain, many large manufacturers followed white residents into the suburbs. White flight drove 2 million white people from the city into the suburbs, replaced by 2 million Black and Hispanic individuals moving into city centers. In the late 1960s, 60% of the white population lived in the suburbs, whereas over 80% of the black population lived in these large cities. Half of these non-white households occupying city dwellings lived in rented, low-value housing units, compared to less than 20% of white families. Among the most significant reasons for this discrepancy in home-ownership was the inability of black households to secure the readily available and affordable credit promoted by the financial regulations and banking acts

844 The number of unskilled jobs in the US economy dropped from 13 million in 1950 to less than 4 million by the end of the 1960s thanks to efforts to automate, Ibid., 20.
845 Ibid.
846 Ibid., 3.
847 Ibid.
of the 1930s and 1940s. The racial prejudice of credit lenders prevented many black households from accessing mortgage credit, which acted to maintain racially segregated neighborhoods.

While poverty and unemployment were certainly determining factors in preventing black homeownership, income data suggests that more black households should have been eligible for Government-backed mortgage insurance.\textsuperscript{848} Black borrowers had a nearly impossible time obtaining a mortgage from financial institutions such as commercial banks and thrifts. Instead, these firms preferred to lend to real estate brokers, resulting in black homeowners paying 73\% more for their homes than their white counterparts.\textsuperscript{849} In place of being granted credit by savings and loan associations or commercial banks, nonwhite borrowers were forced to obtain their credit from predatory realtors or financing companies (e.g., loan sharks) whose interest and finance charges were much higher than other financial institutions.\textsuperscript{850}

As mentioned in Chapter 2, 70\% to 85\% of the short-term funds borrowed by these usurious finance companies and lent to non-white borrowers came from commercial banks. This financing arrangement meant that commercial banks were, in reality, channeling credit to nonwhite borrowers, but often not lending directly. Banks preferred to lend to smaller realtors and financing companies, who would then sell exploitative credit contracts to prospective nonwhite borrowers, who were forced by overt and systemic racism into these more precarious debt relations. The most often cited reason for avoiding direct lending was the perceived greater risk of providing credit to minority borrowers, reflecting the hierarchy of avoidance of the early postwar era that maintained that the lending risks associated with race and sex were costs to be avoided. As civil rights activist Theodore Cross explained in 1969:

A bank's routine credit check on a ghetto borrower finds nothing - not bad credit, but simply no credit. Of the more than twenty-three million Negroes and Puerto Ricans in the United States

\textsuperscript{848} Keeanga-Yamahtta Taylor, “Back Story to the Neoliberal Moment” 14, no. 3–4 (July 1, 2013): 194.

\textsuperscript{849} Ibid.

today, only a minuscule percentage can execute an unsecured note for three hundred dollars which is bankable at even an interracial lending institution. Moreover, when measured by credit risks in the safe economy downtown, there is virtually no interest rate high enough to compensate a lender for the average unsecured or commercial credit risk in the ghetto.\footnote{Theodore L Cross, \textit{Black Capitalism; Strategy for Business in the Ghetto} (New York: Atheneum, 1974), 45.}

African American Studies scholar Keeanga-Yamahtta Taylor explains this lending discrimination by enlightening readers to the existence of a “racialized political economy where Blacks paid more for everything from housing to automobiles to groceries to eye-glasses.”\footnote{Taylor, “Back Story to the Neoliberal Moment,” 187.} Taylor argues that scholars often overlook this racialized political economy and instead overemphasize “poverty as the main factor in the residential segregation of African Americans while paying less attention to the ways in which financial exploitative practices” created segregation, poverty and inequality.\footnote{Ibid.} Specifically, Taylor points to the existence of “race taxes” and “dual housing market” as representative of the fact that black borrowers paid higher than average prices, interest, service charges, and penalties.\footnote{Ibid.}

Markups of 100 to 300 percent in black neighborhoods were common, which essentially amounted to an average ‘race tax’ of $10 a month.\footnote{Ibid., 198.} The presence of these racially exploitative lending and pricing practices led Taylor to conclude that predatory credit relations were the result of institutional forms of racism. As Taylor explains, “Institutional racism was the cumulative effect of policies, programs, and practices of public and private organizations causing the exclusion or marginalization of African Americans from the benefits enjoyed by whites.”\footnote{Ibid., 202.}

With regards to credit cards, as communication scholar Lana Swartz points out, white men represented the overwhelming majority of credit card holders in the United States in the 1960s, and black men wealthy enough to obtain a credit card often encountered merchants who refused to accept their card as a means of payment.\footnote{Swartz, “Gendered Transactions,” 141.}
In the mid-1960s, anti-racism protests broke out across the United States, with the National Advisory Commission on Civil Disorders naming “discriminatory consumer and credit practices” as one of the twelve major grievances underlying the demonstrations. Historian Gerald Horne claims that to understand these protests in areas such as Watts “it is necessary to understand the role of business.” As Horne explains, “the notorious savings and loan associations in South LA charged higher interest rates than their branches elsewhere did, redlined relentlessly, and treated their customers with scorn.” In response to this discriminatory treatment, as Horne points out, “almost half of the high credit businesses were totally wiped out, while only three out of forty low credit businesses suffered damage to the same extent.” Horne claims, “much of what became looting was sparked initially by harried efforts to snatch credit files from businesses.” When Congressman Wright Patman toured Watts, California less than ten days after the 1965 protests, he remarked that he “was impressed by the almost total destruction of loan offices and the buildings of those merchants who used merchandise only as a front for ‘fast-buck’ credit operations.” Carlyn Walker, a Los Angeles attorney, referring to predatory lending practices, added “When historians write the story of all of this trouble, they’re going to wonder how in the hell such an incendiary element could have been so complacently accepted and overlooked.” The practices went unnoticed because most borrowers affected by predatory lending had no other choice but to either comply or protest.

Congress and government regulators were aware of systemic lending discrimination but did not immediately act to remedy the situation. As mentioned in Chapter 2, a 1966 government report

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859 Horne, *Fire This Time*, 111.
860 Ibid.
861 Ibid.
862 Ibid.
noted systemic credit granting discrimination for black and Puerto Rican borrowers in New York, where lenders charged higher interest rates, or did not grant credit at all, with no regard for the borrower’s credit history or standing. This reluctance to lend to non-white borrowers due to their lack of credit and perceived higher-risk of default presented a major problem for the Johnson and Nixon administrations as antiracism protests erupted across the country. In response to protests, the Johnson and Nixon administrations, as well as commercial banks, sought to modify the lending environment in a way that would increase the flow of credit to non-white and low-income borrowers. The solutions proposed fundamentally altered the US financial system without dismantling institutionalized discrimination or touching white wealth.

7.2 Searching for Solutions

With civil rights protests taking place in cities across the United States, Lyndon Johnson in a commencement address at Howard University announced that his administration would be hosting a civil rights conference in 1966. In his October 1965 speech, Johnson stated that the conference would “draw together men and women with long experience in the fields of housing, employment, education, social welfare, and the like. They will point the way toward new efforts to include the Negro American more fully in our society.” The conference, held in June 1966, was entitled, “To Fulfill These Rights.” The title reflected both the objective of the conference and the President’s message, which was to "translate the promise of equality into reality for millions of Negro Americans.” Participants included several civil rights leaders, including Dr. Martin Luther King Jr., Roy Wilkins, Whitney M Young Jr., and John Lewis. Out of the conference participants, there was only one economist (Vivian Henderson) and no representatives of financial institutions save for one man, John S. Gleason. Gleason was the Vice President of Business Development for First National Bank of Chicago, the same bank that founded the Midwest Bank Credit Card Association, which - as explained in a later section - claimed that the introduction of the bank credit card had democratized credit.

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865 Democratic National Committee, “Truth in Lending: Operation Support.”
867 “The White House Conference, ‘To Fulfill These Rights,,’” June 1, 1966, Box 8, LBJ Library.
868 Ibid.
The conference report noted that attendees felt that the “administration should adopt a firm and vigorous policy…to promote and implement equal opportunity desegregation.” Conference members considered increasing African American access to white neighborhoods and communities’ - creating equal credit opportunities – the most complex issue of the civil rights problem. Attendees reported that non-white borrowers paid higher down payments, had shorter loan terms and that higher interest rates were applied regardless of an applicant’s credit or income. To eliminate this systemic discrimination, participants called for comprehensive Federal anti-discrimination laws aimed at providing a ‘free credit market.’

Throughout the report, there were calls for free choice and a free mortgage market. The desirability of ‘free choice’ is understandable given the mediating role that speculative realtors and predatory lending companies played, and the outright discrimination that non-white borrowers faced when applying for credit. However, the participants were quick to note that it was not their purview to comment on the market system and the economy as a whole. Rather, they wanted the government to acknowledge:

…That as far as the production of housing for lower cost brackets is concerned the economy has been in paralysis for years. At present, it is being strangled to death. Even if it must be done at the expense of other parts of the economy, it is imperative that vast amounts of credit for the production of lower cost housing be made available immediately.

The attendees called on the Federal government to recognize that a variable (i.e., low-income housing) within the economic environment was in need of modification. In place of government housing, the report recommended greater access to credit as the solution, legitimating ‘deregulation’ and debt as a means to solve the housing crisis. The conference represented a serious attempt to overcome what Taylor describes as the “widespread notions that conflated blackness with economic risk and deteriorating property values.” This position on credit and housing, as historian David Freund revealed, reflects the focus of postwar racial discourse on

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869 Ibid.
870 Ibid.
871 Ibid.
markets, property, and citizenship. By focusing on markets, property, and citizenship, institutionalized racism became harder to demonstrate, as systemic lending and housing discrimination in the form of ‘race taxes’ and a ‘dual housing market’ were described as by-products of the “free market” and “supply-and-demand economics.”

This market oriented racial discourse also occurred at a time when new ‘consumer rights’ were being called into being due to lending discrimination and the ‘race tax.’ As historian Felicia Kornbluh points out, advocates for non-white welfare recipients used the language of American constitutionalism to argue for the right to consumer credit at major department stores, even introducing the slogan, “Give us credit for being American.” Within a US social environment where debt had become an essential feature and often a requirement to live, credit cards in the mid 1960s – not just mortgage credit - became viewed as a legitimate demand for those denied access to these credit devices. Kornbluh argues that these credit activists sought to gain “access to these department stores to release low-income people from the hold of exploitative local stores” and campaigned for credit cards at Sears, Montgomery Ward, Lerner, and Lane Bryant. As part of their campaign for credit cards, welfare activists attempted a boycott of Sears for denying credit cards to welfare recipients and brought the issue of credit card access to the forefront of public attention in the mid to late 1960s.

The push for a free real estate market and access to credit cards represented a significant value creation opportunity for commercial banks. As Chapter 6 outlined, commercial banks did not have the same government protections and subsidies as thrifts, whose lending was primarily in real estate. A free housing market, devoid of regulatory constraints would enable larger commercial banks to gain a greater share of the credit market from specialized lending institutions. Institutionalized discrimination provided lawmakers and activists the impression that

873 Freund, Colored Property.
876 Ibid., 85.
877 Ibid.
government financial regulations and statutory protections did not work as intended, ignoring the part that racism played in cutting off the flow of credit to black communities. The work of welfare activists also illuminates how debt was legitimated and promoted as a right in the mid to late 1960s, presenting a profitable opportunity for bank credit card issuers willing to lend to underserved and discriminated against populations. Both examples provide evidence as to how debt, and even credit cards, came to be portrayed in the mid to late 1960s as a means to resolve racial discrimination and inequality.

After the conference and over the summer of 1966, newspaper reports emerged that reported that President Johnson was working overtime to address the protests that had ignited across the US. This effort included dispatching a ‘top-level’ team of White House employees to five cities across the country to speak with university and political experts about finding ways to end the protests against discrimination. One newspaper reported that Joseph Califano – Johnson’s top domestic aide – was gaining valuable insights on the problems of the inner city, the dynamics of the “Negro revolution,” and white flight to the suburbs. The protest situation had become so dire in the eyes of the administration that they labeled it as the “nation’s worst domestic problem.”

878 “Report...and the Cities” (The Washington Post, August 10, 1966), Box 4, LBJ Library.

879 The files found in White House dossiers reveals how desperate and open the White House was to find a politically feasible solution to the unrest in its big cities. Included within the files were letters from management consultant, Saul Betens, who stated that: “In a discussion with my staff industrial psychologists, we evolved a simple, magnificent plan that gets to the heart of and promises to dissolve most of the basic factors causing our civil rights riots born of frustration, idleness, tensions, emotional instability, and corroding American standards of ethics and morals.” In his letter, Betens was adamant that he had to meet with the President directly. Califano’s answer was not to dismiss Betens, but to let him know that a meeting with the President was impossible, but they were interested to see if he would meet with an appropriate staff person. In that same week, the White House received a letter from Vernon H. Mark, the Director of the Neurological Service Sears Surgical Laboratories at Harvard Medical School. In his letter Mark remarks that the “obviousness of [poverty, unemployment, slum housing, and inadequate education] may have blinded us to the more subtle role of other possible factors including brain dysfunction in the rioters who engaged in arson, sniping, and physical assault”. Using research conducted by French and South African scientists, which Mark felt was relevant to the situation in the United States, he noted that these scientists found that “persons arrested for murder had six to nine times the frequency of abnormal brain waves as occur in the population at large” and that these subjects were found to be “delinquent psychopaths.” It was Mark’s recommendation that any arrested rioters be kept for intensive clinical study, Saul Betens, “Letter to President Lyndon Johnson,” August 4, 1967, Box 4, LBJ Library; Vernon Mark, “Letter to Lyndon Johnson,” August 8, 1967, Box 16, LBJ Library.

880 “Report...and the Cities.”
Johnson had a particularly difficult time convincing his political counterparts in the Republican Party to support any form of anti-discrimination legislation. One news story reported that before Senator Robert Byrd led a coalition to block civil rights legislation, Johnson called to tell him: "All I'm trying to do is to help these people get out of the rat holes and let them see a little sunlight."\(^881\) Johnson’s plea fell on deaf ears. Former President Eisenhower even attacked Johnson, telling the Washington Post in July 1967,

We are rapidly approaching a state of anarchy and the President has failed to recognize the problem. Worse, he has vetoed legislation and opposed other legislation designed to reestablish peace and order within the country... how many millions of people must be made homeless - how many thousands wounded, maimed, or killed over the years before the President will support or approve legislation to restore order and protect the people of this country?}\(^882\)

The Republicans in Congress and at the state level prioritized ‘law and order’ over any form of fair housing legislation. Historian Michael Sherry claims that due to widespread protests and civil unrest, it became easy for white Americans “to see the enemy as poor and black people themselves.”\(^883\) Viewed as the enemy, the conduct of black protesters became for the Republicans – as Eisenhower’s statement indicates - a crisis requiring measures of ‘law and order’ and a target of dog-whistle politics.\(^884\)

With this growing racial resentment, a memo dated June 5, 1967, circulated through the White House that noted that it was in the President’s best interest to focus on implementing policies that did not offend the white middle class. The memo urged the Administration to direct its attention to how it can “minimize the inevitable reaction against this violence and its byproducts within the white middle class community. A white middle-class whose reactions could contribute a dangerously strong backlash sentiment.”\(^885\) The memo noted that part of the problem stemmed

\(^881\) Ibid.
\(^882\) “GOP Blames President for Racial Riots” (The Washington Post, July 25, 1967), Box 5, LBJ Library.
\(^884\) The 1964 presidential election marked the beginning of the realignment we live with today. Where in 1962 both parties were perceived as equally, if tepidly, supportive of civil rights, two years later 60 percent of the public identified Democrats as more likely to pursue fair treatment, versus only 7 percent who so identified the Republican Party, Ian Haney-López, *Dog Whistle Politics: How Coded Racial Appeals Have Reinvented Racism and Wrecked the Middle Class*, 2014, 17.
from media reports that grabbed onto any anti-white sentiments from black civil rights leaders. As a result, it advised the White House to avoid asking the white middle class to “do anything that they would not want to do.”886 In other words, the administration was urged not to press the white middle class to relinquish wealth, property or privilege.

As historian Matthew Lassiter explains, middle-class white people living in the US who did not identify themselves as overtly or intentionally against civil-rights generally favored legislation to prevent overt or intentional acts of racism. As Lassiter argues, “the race-neutral rhetoric of white self-interest, rather than deeper examination of the meaning of equality…all too often represented not the first step of a good-faith process but instead reluctant acquiescence to the minimum requirements of the law.”887 Lassiter found that those who espoused this position on race preferred a type of racial discourse that hinged on the promotion of a color-blind meritocracy. Within the framework of a meritocratic society, individual achievement would be emphasized over any need to rectify the damages done by the institutionalized and systematic racism of the past, meaning that the white middle class would not be forced to ‘do anything that they would not want to do.’

As highlighted in Chapter 6, Johnson was finally able to pass the Fair Housing Act in April 1968, which forbade excluding people from accessing housing credit based on their race, religion, or national origin. In addition to the Fair Housing Act, Johnson also introduced the Housing and Urban Development Act in August 1968. This Act called for the construction or rehabilitation of 26 million urban housing units over a 10-year period.888 As Taylor explains, “the Fair Housing Act of 1968 removed the final vestiges of legal racism in the United States and with it came the ascendance of the concept of ‘colorblindness,’ which deepened the idea that explicit declarations of racism are the only evidence of racism.”889 The housing acts did not provide a viable way to increase credit access for minority borrowers, or channel affordable

886 Ibid.
credit to American cities. Instead, it worked to legitimize technical or color-blind solutions to prevent overt acts of racial discrimination, downplaying the structural or institutional nature of racism in housing and lending. Amidst these federal government efforts to legitimize technical solutions to lending discrimination and increase access to credit for non-white borrowers, the bank credit card market rapidly expanded.

7.3 Unsolicited Cards as Instruments for Credit Democracy

By 1967, consumers had accumulated over $95 billion in outstanding debt.\textsuperscript{890} Coupled with this rising debt was a surge in commercial banks offering bank credit cards. As outlined in Chapter 4, between 1966 and 1967, a thousand commercial banks had entered into the bank credit card market.\textsuperscript{891} Thanks to this incredible influx of commercial banks, the credit card market was extremely competitive, and banks did whatever they could to put their card into people’s hands. As Chapters 2 and 4 outlined, given the necessity of volume in bankcard operations to accrue profits, banks mailed out millions of unsolicited cards throughout the United States.

![Unsolicited BankAmericard](image)

Figure 8: BankAmericard Unsolicited Mail Out. John W. Macy, "Letter to Wright Patman," 1967, Box 559B, LBJ Library.

As mentioned in Chapter 2, banks sent nearly half the bank credit cards they mailed out without

\textsuperscript{890} “Files of Wright Patman,” 1967, Box 594G, LBJ Library.

\textsuperscript{891} Ibid.
any credit checks.\textsuperscript{892} What all of these operations had in common was the desire to increase sales volume and outstanding debt. The mass issuance of unsolicited cards drew the attention and ire of the national press, consumers from across the country, law enforcement, and the House Banking Committee Chairman Wright Patman. In 1967, Patman proposed a bill that would ban the mass mailing of unsolicited bank credit cards.\textsuperscript{893} In introducing the bill, Patman outlined what he identified as the reasons for the new wave of commercial banks entering into the credit card market:

\begin{quote}
For one thing, the banks are able to build up the one reliable source of limitless business available to them which they can handle at a profitable spread over the uneconomic cost to them of the money they are borrowing. For another, the retailers of goods and services are relieved of the familiar fear of credit risk and the new fear of credit fraud. In addition, the proliferation of instant bank credit card money is reinforcing the conspicuously casual attitude of the public toward savings and intensifying its willingness to commit future income to pay off new debt.\textsuperscript{894}
\end{quote}

At the heart of this argument was the understanding that perceptibly easy credit presented an opportunity for consumers to develop an ‘intense willingness’ to take on debt. Credit cards presented banks the potentially lucrative opportunity to extend credit to not only populations denied credit cards but to also form credit relations with consumers that were not attached to the life of a contract but the life of the cardholder. The card contract was a seemingly limitless and permanent form of debt relationship.

As Chapter 4 outlined, the permanence of the debt relationship was something that banks felt prepared to handle given the adoption of new management and operations techniques. With this confidence in their risk-taking capacity, banks could shoulder the repayment and delinquency ‘hazards’ attached to ‘high-risk’ and lower-income borrowers. Taking on these risks enabled banks to by-pass finance companies and retailers that had previously held lending relationships with higher-risk borrowers, thereby working towards the monopolization of this form of debt


\textsuperscript{893} The proposal served as a national platform for the Texas Congressman to express his view that the bank credit card was “as an abusive gimmick” that was “an insult to the intelligence of the consumer,” “Congressional Record,” August 28, 1967, Box 559B, LBJ Library.

\textsuperscript{894} House of Representatives, “Regulation of Credit Card Mailings,” March 26, 1970, Box 597G, LBJ Library.
relationship. However, the bank credit card also provided an opportunity for commercial banks to promote themselves as socially responsive leaders in the extension of affordable credit to American households.

The bank credit card with its small lines of credit, limitless contracts, and high-interest rates presented an opportunity for banks to ‘democratize’ credit and provide ‘equal credit opportunities.’ The move by banks to indiscriminately send out unsolicited cards to as many people as possible was the first act of democratizing credit and attempting to provide universal credit access. This claim is not just a historical observation. The democratization of credit through credit cards was the argument used by commercial banks to justify the mass issuance of unsolicited bank credit cards.

During the hearings, Republican Congressman Del Clawson claimed that “the underprivileged get a cheaper line of credit through the banks.”\footnote{Del Clawson, “Unsolicited Bank Credit Cards: Hearings Before the Committee on Banking and Currency: House of Representatives,” November 8, 1967, Box 559B, LBJ Library.} Clawson’s argument echoed the testimony presented by credit card issuers. In a letter sent to Congress, First National City Bank claimed that bank credit cards were definitely in the public interest. They remarked that bank credit cards gave “banks a means of competing more directly in the consumer credit market - an area dominated by other credit granting institutions” and that the “borrower benefits from the competition.”\footnote{First National City Bank, “Unsolicited Bank Credit Cards: Hearings Before the Committee on Banking and Currency: House of Representatives,” November 8, 1967, Box 559B, LBJ Library.} The letter makes clear that banks were not for the first time entering into the consumer credit market, but were instead searching for a more direct means of reaching more borrowers, by-passing finance companies and retailers.

In another letter, sent by the lawyer for the Midwest bank credit card association, the association argued that the card was “another democratic function in our society.”\footnote{Earl Pollock, “Statement of Earl Pollock: Attorney for the Midwest BankCard System Inc.”}\footnote{Ibid.} According to the Midwest organization, bank credit cards provided every family with good payment records with access to ‘credit privileges’ previously reserved for only the wealthiest Americans.\footnote{Ibid.} Additionally, the association argued that small retailers benefitted from the bankcards, as the
bank credit card helped to shift risk evaluation, credit granting, and collections to the banks. By directly lending small amounts of revolving credit to consumers, as opposed to providing short-term loans to credit mediators (e.g., finance companies and merchants), the bank credit card represented the first widespread attempt amongst banks to target low-income consumers and provide those previously denied credit cards, an opportunity to acquire this credit device.

The hearings revealed that banks used mass mailing techniques to flood the credit card market with bankcards. AFL-CIO legislative director Andrew Biemiller claimed at the hearings that bank credit cards were proving to be more expensive than expected credit instruments for families, as most families struggled to understand the actual costs of revolving credit. The Chief of the Bankruptcy Division of the US Courts Royal Jackson supported Biemiller’s testimony. Jackson pointed to the direct correlation that existed between credit card use and personal bankruptcy. With the increased use of revolving credit through credit cards, American personal bankruptcy rates were three times higher than they were in 1957. Precarious debt relations fueled this economic and financial environment, as a more permanent form of debt relation populated people’s lives.

In these hearings, commercial banks and bankcard associations characterized the bank credit card as the first attempt to democratize and improve access to credit. Thus, the quest to liberalize and democratize the consumer credit market happened before the implementation of government policies in the late 1970s or even the widespread adoption of computerized credit scoring methods. Bank credit cards were not a government policy initiative aimed at increasing the accessibility of affordable credit to minority and low-income borrowers. They were a debt instrument introduced by commercial banks to gain a greater share of the consumer credit market that had a business model that targeted people living in America who had difficulty accessing credit, especially credit cards. The business model came at a time when many people across the United States were protesting against credit discrimination and were increasingly dependent on debt to survive. However, the business model also emerged at a time when banks were not only...

899 Ultimately, a ban on the mail out of unsolicited credit cards would not happen until 1970.
incorporating statistical planning techniques but also when bank executives, such as A.W. Clausen at Bank of America, were learning to understand the business environment and the impact of black and student activism on their business operations.

7.4 The Business Environment

As outlined in Chapter 4, management programs helped to introduce into banking systems research techniques and methods that provided the foundations for the environmentality of the postwar period. One of these programs was Harvard’s Advanced Management Program (AMP). Harvard’s executive training program, attended by Clausen in the late 1960s, began in 1945 as an outgrowth of its War Industry Training Course. The AMP was a short course designed to give young managers and executives training in modern management skills and techniques. These programs, as historian Robert Locke claims, reflected, following Taylorism in the early 20th century, the next wave of the “scientization” of management. As historians Will Thomas and Hunter Heyck demonstrate, the ‘scientization’ of management practices emanated primarily from the ‘systems’ research and methods applied by military scientists and planners. As described in Chapter 3, this ‘systems’ approach, inspired by social scientists such as Talcott Parsons and information scientists like Herbert Simon, framed society as a ‘functioning system’ composed of a series of interrelated domains and helped to introduce the concepts of systems, function, organization, and process into management training. These programs also helped to introduce an environmentality, or a particular way for managers and executives to see the world outside the firm and understand the impact of external elements on business operations.

Executive training programs sought to provide young managers and executives with this type of environmentality. J. Bruce Neighbor, Director of Berkeley’s Executive Training Program and former member of MIT’s Department of Management, described these management-training

903 Ibid., 672.
904 Thomas, Rational Action; Crowther-Heyck, Age of System Understanding the Development of Modern Social Science.
905 Isaac, “TANGLED LOOPS”; Crowther-Heyck, Age of System Understanding the Development of Modern Social Science; Parsons, Social System; Latham, The Right Kind of Revolution.
programs as plunging, “executives into an intensive study of those external events that, although not directly related to business, exert a subtle impact on it.”

Neighbor’s listed civil rights demonstrations and international power politics as examples of external events that, while not directly related to day-to-day operations, exert a subtle impact on business operations. According to Neighbor’s, these programs not only taught executives about these changes but also to “forecast changes and initiate them within and outside” their company. At Berkeley, executives enrolled in the program listened to lectures on open-heart surgery to understand the economics of medical costs and visited impoverished neighborhoods in San Francisco. As illustrated by Neighbor’s commentary, these executive training programs sought to provide executives with a way to see the external world as inter-connected, complex, and crisis-ridden and compel them to forecast and initiate changes both within and outside their companies.

Meanwhile at Harvard, as mentioned in Chapter 3, business school professor Francis Aguilar helped to introduce the concept of the ‘business environment.’ Aguilar, a former Air Force pilot and engineer, often taught courses on Business Policy and Ethics in Harvard’s AMP and had a working relationship with Bank of America throughout Clausen’s Presidency at the bank. Bank of America sent executives to both Harvard’s AMP and Berkeley’s Executive Training Program. Tom Clausen, Bank of America’s President, was one of 160 students enrolled in the 50th Advanced Management Program Course at Harvard in 1966. He joined 109 business managers, thirty representatives from 15 different countries, and 21 officials from the US Navy, Air Force, Army, Marine Corps, Secret Service, and CIA. These managers and government officials took classes on Human Behavior, Planning and Budgeting, Statistical Decision Making,

906 “B-School Throws Away the Book” (Business Week, April 22, 1967), Box 17, LBJ Library.
907 Ibid.
908 Ibid.
Business Policy, Marketing, Business in a World Society and Business History. Clausen, three years after graduating from the AMP, presented to his bank’s Board of Governors a long-range vision for the bank and a proposal to develop an ‘arithmetic of quality’ to navigate the bank’s increasingly volatile business environment.

Clausen was appointed President of Bank of America in January 1970. In late February 1970, students from UC Santa Barbara lit a dumpster on fire and wheeled it into Bank of America’s Isla Vista branch. The branch quickly caught fire as UCSB students who accused the bank of profiting from the war in Vietnam looked on. The fire in Isla Vista became the first real challenge for Clausen. Clausen immediately experienced the growing dissatisfaction with his bank’s operations when he met with stockholders in March 1970. At this meeting, activist shareholders also charged the bank with profiting from the war in Vietnam. When asked by shareholders about the Isla Vista incident, Clausen called for no punitive action to be taken against the protesters, as he believed that would only spark more violence and protests. Clausen took these accusations and concerns seriously and ordered a reexamination of the bank’s social policy, making social responsiveness one of the bank’s highest priorities.

In a letter dated March 12, 1970, addressed to Nixon’s Treasury Secretary David Kennedy, Clausen outlined the bank’s position on the lending crisis. Clausen started the letter by declaring, “We are aware of your grave concern regarding the housing market,” quickly followed by, we “share this concern and are committed to increase the flow of funds to this sector.” However, instead of focusing on the systematic discrimination faced by minority borrowers, Clausen instead chose to focus on what he perceived as the true inequality of the housing crises, which was the inequity of the financial system. He stated bluntly that Bank of America questioned “the

912 Ibid.
915 Ibid.
thrust and direction of the efforts" of the administration and government officials. Namely, the bank was dissatisfied with proposals that continued to provide subsidies to thrift institutions, which they argued “ignore existing imbalances in a free market system.” According to Clausen, it was not systematic discrimination to blame for the housing crises, but it was subsidies that “created the problem in the first place.”

Because the bank viewed subsidies as “highly inequitable,” Clausen urged the Treasury Department to consider legislative proposals that were in the “interest of providing support to housing while improving the equity of the financial system at the same time.” For instance, Clausen suggested that if the Federal Reserve reduced reserve requirements on commercial banks, Bank of America would “directly divert all funds released from required reserves on savings deposits to direct support of the housing market.” Clausen suggested that if the Treasury Department were able to loosen banking regulations and reserve requirements, Bank of America would help deal with the country’s housing crises and increase its credit lending efforts to minority borrowers. As outlined in Chapter 6, the Hunt Commission was formed during this period, which largely sought to implement the changes proposed in Clausen’s letter.

Clausen continued to demonstrate his strong stance on social responsiveness during his Presidential address to the Bank’s Board of Governors at the Waldorf Astoria two months after his letter to Kennedy and three months after the fire in Isla Vista, in May 1970. The new President entitled his speech, “California: People, Problems, Potential: Towards and Arithmetic of Quality.” In his remarks, Clausen made no mention of the Isla Vista fire or the bank’s presence in Vietnam. However, he did try to present to his bank’s Board of Governors a particular way of seeing and understanding the world outside of the bank and convince the Board to adopt an environmental view of the world external to the bank’s operations.

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918 Ibid.
919 Ibid.
920 Ibid.
921 Ibid.
922 Ibid.
The focus of his Presidential address was on ‘quality of life.’ Clausen forecasted that ‘quality of life’ would be the burning issue of the 1970s, mainly because he claimed that changes to aspiration and living standards brought forward a “growing number of questions about our socio-economic system.” Quality of life was a systematic issue for Clausen, who told the Board of Governors that the “quality of life issue is a cluster of interrelated problems.” These problems included a series of issues that for the most part showed no direct relation to the bank’s day-to-day operations including: “ecology, hyper-technology, pollution, overpopulation, urban blight, transit congestion, crime, minority and campus unrest.” According to Clausen, this cluster of interrelated problems combined with an increased desire for “satisfying jobs, sufficient housing, proper care for the aged, and adequate medical care” and caused considerable unrest and dissatisfaction amongst Americans with their quality of life. Clausen followed up this description of ‘quality of life’ by claiming “the important thing is that environment – the quality of life as a composite issue – has captured our attention.”

Clausen, to confront the quality of life issue, proposed the development of an arithmetic of quality that would evolve into a social report. Clausen’s took the idea of a social report from Harvard sociologist Daniel Bell’s “Social Trends of the 70’s” and the US Department of Health, Education and Welfare’s “Toward a Social Report.” As he pointed out, these social reports sought to “identify, assess and measure those elements of national life that are essential to our well-being – and which are not, and cannot be, measured by present economic indices.”

For instance, Clausen pointed to GNP as providing very little information on “many of the things which make life worth living.” Clausen criticized the GNP for distorting episodes of social deterioration, like natural disasters such as earthquakes, floods, or fires, as an economic gain.

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924 Ibid.
925 Ibid.
926 Ibid.
927 Ibid.
928 Ibid.
929 Ibid.
930 Ibid.
931 Ibid.
rather than a loss. Clausen remarked, “because labor is paid and materials purchased to rebuild the community, the result is a GNP rise even though the renovation may never be able to match the assets destroyed.”

Clausen also criticized the consumer price index for adding to the inflationary bias to people’s view of the US economy. Clausen claimed that the consumer price index “regularly indicates that the cost of medical services has risen” but fails to “account for the fact that solid advances in the quality of medical care per dollar unit of expense have been achieved during the same period.” These examples were pointed criticisms of the technocratic economic tools used to govern the economy in the postwar world. At the same, these comments did not represent a call for a free market system driven exclusively by the profit motive or government intervention.

Clausen argued that business, government, and academia had been “tending toward a kind of intellectual indolence; we content ourselves with aggregates alone, regardless of the extraordinary exception. We have forgotten or chosen to ignore the statistical truth that a man can drown in a river with an average depth of three feet of water.” However, Clausen was not proposing a complete abandonment of mathematical methods and techniques. Instead, he argued that business, government, and academia had to “learn to how to use this discipline correctly – to temper it with human judgment and see that it remains a tool.” As a result, the development of a social report and arithmetic of quality had to be interdisciplinary but continue to rely on statistical and mathematical measures. According to Clausen, a refined arithmetic of quality had to “weave available bits and pieces of information into a total measurement system” to help firms “develop programs and practices designed to accommodate social and environmental as well as economic needs.” Following this framing of the arithmetic of quality, it is clear that Clausen was not proposing a simple corporate social responsibility project. The ‘arithmetic of quality’ was an attempt to incorporate a systems based or environmental view of the bank’s internal and external milieus.

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932 Ibid.
933 Ibid.
934 Ibid.
935 Ibid.
936 Ibid.
Clausen sought to have the bank’s governing officers adopt the belief that the "ability of an individual citizen to establish a career commensurate with his abilities and live a full life equal to his biological potential, and include a definition of the levels of an adequate standard of living and the elements of a decent physical and social environment."\textsuperscript{937} Clausen attempted to parlay to the bank’s Board of Governors that the corporate performance of the bank rested on being an active participant in the development of this ‘decent physical and social environment.’ Clausen’s tying of the arithmetic of quality to corporate performance, however, did not mean that this social initiative was designed to immediately maximize profits.

Unlike economist Milton Friedman, Clausen did not adhere to the view that the main task of the executive was to maximize the profits of their firm. In his speech, Clausen recalled being disturbed by a story told by Louis Banks, the Editorial Director of Time Inc., who described a Wall Street broker that speaking of New York said, “I think this city is past saving, and I think my responsibility is to sit back and figure out how I can profit from its decline and fall.”\textsuperscript{938} Clausen took a stance against the viewpoint advocated by Friedman and the New York broker and proposed what he felt was a viable alternative philosophy. Clausen urged the Board of Governors to recognize that profits were not the “sole determinant of corporate performance, from either the investor’s or the corporate managers’ point of view.”\textsuperscript{939} Clausen noted that Bank of America’s investment analysts had concerns over the bank’s future ‘profit performance.’ In particular, the analysts warned Clausen that “there will be precious little profit emanating from cities racked with disorder, choked by their own mass and polluted beyond human endurance.”\textsuperscript{940} Clausen claimed that what was needed was a profit equilibrium.

According to Clausen, profits that were too high, citing Manufacturer Hanover Trust President Gabriel Hauge, suggested “a lack of competitive vigor, and offer obvious targets for new entries, higher wage demands or government surveillance.”\textsuperscript{941} Alternatively, Clausen claimed that profits that appeared too low, “suggest neglect of the customer or lack of innovation, or a sacrifice of

\textsuperscript{937} Ibid.  
\textsuperscript{938} Ibid.  
\textsuperscript{939} Ibid.  
\textsuperscript{940} Ibid.  
\textsuperscript{941} Ibid.
stockholders for the short-run interest of other groups, or just poor management.”942 Within this profit framework, Clausen argued that the profit mechanism was compatible with “efforts to fulfill diverse socially beneficial goals” as executives should strive to be a conciliator between the interests of shareholders, creditors, customers, employees and the community at large.943 In that sense, this profit equilibrium was what executives had to work towards, maintaining an adequate profit margin while also investing in providing a “decent physical and social environment” outside the firm to ensure a high level of future corporate performance.944

The recognition of the need to produce these external environments came at a time where there was increased attention paid to the potential profits attached to the black community. In August 1966, James Morton, the Special Assistant to the Secretary of Commerce sent a letter to the White House detailing the size of the black consumer market. Quoting Commerce Secretary John Connor, the letter notes, “The Negro market represents for America both an opportunity and an obligation. It will be an increasingly profitable market as the Negro is given greater opportunity to contribute to and share in the general prosperity.”945 The Department of Commerce estimated that African Americans had approximately $27 billion worth of buying power, but that this buying power would be $20 billion greater if the government provided equal education and employment opportunities.946 As the Department describes, the forecasted buying power of the black community was attached to the production of a ‘decent physical and social environment’ that included housing, education, and employment opportunities.

By 1969, data and figures became widely publicized on the Gross National Income of African Americans. These financial figures became not only symbols of progress, but also prospective profit targets for major US industries. As one magazine article noted, by the mid to late 1960s many of the giant US industries, including credit card issuers, were beginning to “awaken to the existence of a hidden Negro market.”947 Helping industry giants awaken to the opportunities

942 Ibid.
943 Ibid.
944 Ibid.
946 Ibid.
associated with black consumers were the management and executive training programs attended by Clausen and other Bank of America managers and executives.

In his speech, Clausen proposed an arithmetic of quality to attain a profit equilibrium and improve the future profit of his bank. He suggested that an arithmetic of quality would help the bank “do at least five things better.”\textsuperscript{948} The first is that it would “help rationalize public support behind the solutions needed in our social problem areas.”\textsuperscript{949} Second, the social report would “expedite the actual formation of rational private and public, corporate and legislative goals by furnishing a regular and systematic assessment of our social problems, and the costs as well as benefits of various proposed solutions.”\textsuperscript{950} Third, it would help the bank “develop logical priorities by pointing out which problems are most critical, and what they cost in economic assets and, especially, \textit{human} terms.”\textsuperscript{951} Fourth, the social report would allow the bank “to develop policy alternatives and select from them the most promising solutions by pinpointing the precise nature, components, and scope of specific problems.”\textsuperscript{952} Finally, the social report could help bank officers “determine whether the programs we select to deal with such problems are actually working. It would provide a benchmark - though possibly at first a crude one - for measuring the effect of our efforts over time.”\textsuperscript{953} The arithmetic of quality was Clausen’s way of rationalizing and fitting investments in areas outside the bank’s direct control or ownership into the bank’s operations. It was essentially a means to justify to his Board of Governors financial expenditures designed to foster an external environment that could help the bank produce profits far into the future.

Clausen did not just share this view with the Bank’s Board of Governors, a copy of his speech was distributed to the bank’s California staff, and given to Paul Nelson, the Clerk and Staff Director of the US House of Representatives on July 15, 1970.\textsuperscript{954} The distribution of the speech

\textsuperscript{948} A.W. Clausen, “California: People, Problems, Potential: Toward an Arithmetic of Quality.”
\textsuperscript{949} Ibid.
\textsuperscript{950} Ibid.
\textsuperscript{951} Ibid.
\textsuperscript{952} Ibid.
\textsuperscript{953} Ibid.
\textsuperscript{954} Ibid.
to the US House of Representatives highlighted that Clausen’s intention was not only to change the bank’s internal environment but also work to transform its external regulatory environment as well. Four months after Clausen’s speech circulated through Capitol Hill, Bank of America circulated amongst lawmakers a ‘Fact Sheet’ entitled, “Social Problems and the Bank of America.” The document opened with the bank’s promotion of its drive to be at “the forefront of business efforts to solve urban and social problems.” It claimed that Bank of America had developed programs aimed at employment, housing, small business loans, and the prejudicial attitudes of people, making special note that these were “the areas of major concern to minority groups.”

The fact sheet notes that Bank of America from 1964 to 1970 had doubled the number of minority workers at its banks, though without mentioning the type of work. With regards to small business loans, the bank quoted Clausen who boasted the bank’s environmental perspective on lending:

The Bank is committed to further the cause of minority business where we see an opportunity for the business to succeed. Not only are we looking more to the character and capacity of the applicant rather than to his collateral, we’re making a special effort to create an atmosphere of genuine involvement on the part of our lending officers.

Clausen’s statement found in the ‘fact sheet’ exemplifies the rationale of neoliberal economic and financial environmentality within banks. Via neoliberal frames, banks viewed social and anti-racist protests as value creation opportunities and those corporate figures adhering to this economic and financial environmentality approach sought to modify their environments in a manner to foster this value creation.

However, as Clausen noted in his speech, value creation was about more than just the immediate maximization of profits. The bank’s ‘fact sheet’ claimed that the $100 million it had dedicated for its ‘new opportunity home loan program’ designed to provide credit to “people desiring to purchase, build or improve homes” in non-white communities could have been “invested more

956 Ibid.
957 Ibid.
profitably in other endeavors." While the bank framed the new program as an example of their effort to be at the forefront of solving the housing crises, the other internal documents revealed that the bank attached these efforts to its future profitability.

With the adoption of economic and financial environmentality framework, banks such as Bank of America could promote themselves as being at the forefront of solving the lending and housing crises that spurred mass protest while being confident that these actions would not hurt but rather help their bottom-line. This shift in management orientation was crucial in the 1970s as persistent efforts to eliminate discriminatory lending efforts would push smaller banks and retailers out of the lending market, and give large banks a greater share of the credit card market. The environmental management orientation also emerged during, as outlined in Chapter 6, a Presidential transition.

7.5 Nixon’s ‘Black Capitalism’

President Nixon was elected during a period, as described in Chapter 6, where the US economy appeared in dire straits due to rising inflation. It was also a time when, as mentioned above, the White House struggled to identify bipartisan solutions that would end the anti-racism protests happening in cities across the United States while also appeasing white middle class voters. The Johnson administration, near the end of their term in office, managed to pass the Fair Housing Act as a means to improve the flow of credit to America’s inner cities and to the predominantly black residents inhabiting these spaces. However, studies conducted after the passing of the Fair Housing Act showed not only the incapacity of the Federal Government to meet the housing objectives stated in the housing acts. The repeated failures in Washington to stymie the multiple forms of discrimination, especially economic discrimination, experienced by African Americans continued to fuel the protests taking over city streets across the United States.

When Nixon was elected, he developed a ‘black capitalism’ initiative in an attempt to solve the anti-racism protests taking place across the United States. Proposals ranged from treating America’s cities like underdeveloped nations to transferring 10% of Fortune 500 companies to

\[\text{Ibid.}\]
African Americans. The ‘black capitalism’ ideas that garnered the most attention promoted Black independence or stressed a form of separation. As Taylor points out, “It was easier to advocate fairness and equity for African Americans in their own communities than to pursue a more contentious strategy of attempting to integrate the suburbs.” However, proposals aimed to promoting fairness and equity were not well received by key figures in banking.

Louis Allen of Chase Manhattan speaking on the proposal to shift ownership of major American corporations from white to black owners, argued: “No one can know how to manage a large corporation without experience in doing just that. Certainly, experience in small company management is no substitute.” Federal Reserve Board of Governors Member Andrew Brimmer shared these sentiments. Brimmer was the only black member of the Federal Reserve Board, so was often called upon to address the topic of ‘black capitalism.’ Brimmer claimed that the notion of a successful ‘black capitalism’ was a “cruel hoax,” ignoring the grim reality that African Americans at all income levels had higher levels of debt than their white counterparts. Brimmer noted that the black consumer was “a poorer potential consumer for additional goods and services than a family of similar income that is less encumbered by installment debt payments.”

In addition to countering the claims by the US Department of Commerce and the Nixon administration that the black consumer market was becoming extremely lucrative, and could sustain ‘black capitalism,’ Brimmer argued that Nixon’s focus on black banks and black enterprise was running counter to the general economic trends of the period. By emphasizing the growth of small black-owned businesses, Brimmer argued that the Nixon administration was ignoring the trends in sectors such as retail and banking where the trend was “steadily toward

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962 Ibid., 77.
963 Ibid., 76.
large-chain-store units in which economic efficiency is rising rapidly.”\textsuperscript{964} The trend in the bank credit card industry, as outlined in Chapter 5, was towards greater market share for the largest firms. Given these economic trends and the comparatively high levels of black consumer debt, Brimmer claimed the only solution to dealing with the unrest in predominantly black communities was to remove government protections in the financial sector, as advocated by Hunt Commission members, and for black borrowers to completely integrate into the American economic mainstream.

Brimmer built on these comments in a speech he gave at the University of Washington. The speech was titled, “Interest Rate Discrimination, Savings Flows, and New Priorities in Home Financing,” and was given in 1972, shortly after the Hunt Commission released its recommendations. In the speech, Brimmer – echoing arguments made by lobbyists for the large commercial banks – suggested that New Deal policies meant to strengthen financial institutions now ran counter to the nation’s housing objectives.\textsuperscript{965} Brimmer claimed that existing policies ran counter to the housing objectives centered on providing affordable credit for non-white borrowers. According to Brimmer, housing regulations such as interest rate ceilings benefitted only white middle-income borrowers that could get approved for a loan because rate ceilings helped to keep the costs of borrowing below market prices.\textsuperscript{966} Brimmer argued that the subsidies and protections created by these policies to provide affordable housing were inadequate to meet the priorities of the housing acts passed in the late 1960s, and would not help solve the housing problems in America’s cities because rate ceilings acted as a disincentive for financial institutions to lend to ‘higher risk’ non-white borrowers.\textsuperscript{967} For instance, Bank of America was careful to outline in its ‘fact sheet’ that its increased focus on lending to non-white borrowers was not the most profitable use of its funds.

According to Brimmer, echoing Chicago School translations of the economy, even though rate ceilings benefitted middle-income borrowers they came with significant public costs. The costs

\textsuperscript{964} Ibid., 77.
\textsuperscript{965} Andrew Brimmer, “Interest Rate Discrimination, Savings Flows, and New Priorities in Home Financing.”
\textsuperscript{966} Ibid.
\textsuperscript{967} Ibid.
stemmed from financial and real resources being unable to be fully responsive to the demand and supply pressures of an unregulated interest rate market. Brimmer remarked: “by effectively eliminating price competition, rate ceilings actually force savers to subsidize the cost of deposit funds to intermediaries... less efficient institutions are insulated from the market pressures normally generated by price competition on the part of thriving firms.”\(^\text{968}\) Brimmer argued that this created a system where weaker firms were protected and in need of constant government attention and subsidies to survive, but depositors and borrowers lost the difference between the ceiling rates and a competitive rate determined by a freer market. In this equation, since the costs outweighed the benefits, Brimmer claimed the solution to the housing crises and the solution to the protests was to deregulate the US financial system and eliminate interest rate ceilings allowing the market to set the costs of borrowing.

Brimmer’s proposed solutions to dealing with the housing crises and the systemic low incomes, heavy debts, high unemployment, and small savings and financial assets of African Americans became the target of immediate criticisms. Economics professor Rawle Farley argued that the idea of a laissez-faire financial system was flawed. Farley explained that a market driven financial system, “if it ever existed, obviously cannot produce the kind of change required in the economic status of black America. The market system under which the American economy operates is a mixed enterprise system. The free price mechanism is undoubtedly defective.”\(^\text{969}\) Farley’s position was not radical. Instead, it merely pointed to the existence of an economic environment that was never going to be entirely private or state-owned, and as a result, free market solutions did little to address systemic and institutionalized forms of discrimination.

On the other hand, community organizer Charles Tate was adamant that Brimmer’s position failed to “explore the causal relationship between the conditions of Black poverty and powerlessness and the workings of the American political and economic systems.”\(^\text{970}\) Tate urged readers to understand that the comparatively higher rate of poverty among black people living in

\(^{968}\) Ibid.


the United States was “not an accident of history.” Instead, Tate claimed that the uneven
distribution of poverty originated from a “complex of decisions from the courthouse to the White
House.” 971 Due to the presence of systemic and historical racism, Tate argued that strategies that
aimed to integrate African Americans into white-collar jobs were unrealistic. Tate claimed that
these proposals were unrealistic because those who advocated integration provided no provisions
or insights on how to prevent the systemic racism that excluded black workers from these jobs,
and condemned them “to a marginal, sub-human existence.” 972

What the debates over ‘black capitalism’ reveal is that there was dissension amongst economists,
community organizers, and government officials about how to best deal with financial inequality.
These debates demonstrate that market-based solutions that legitimated debt initially proposed
by welfare and civil rights activists were adopted by commercial bankers like Louis Allen and
Federal Reserve officials such as Andrew Brimmer. These officials presented the market-based
solutions as the most logical solutions to dealing with the overt racism that undergirded the
lending environment. Alternatively, the debates also reveal the existence of a resistance to these
translations of the economy from black political economists and community organizers. These
academics and organizers sought to translate the lived condition of black communities in a way
that highlighted the systemic and institutionalized forms of racism that entrenched segregation
while creating higher levels of unemployment and poverty within these segregated communities.
Despite these efforts from black experts, Congress did not introduce systemic changes to end
institutionalized inequality and discrimination. In fact, it was not until a group of wealthy white
women lobbied for blind credit scoring that Congress passed legislation that barred the use of
sex, race, religion, and ethnicity in credit lending decisions.

7.6  Equal Credit Legislation

In the late 1960s and early 1970s, lenders continued to collect racial information when deciding
on a borrower’s creditworthiness. Despite formal anti-discrimination policies, racial
discrimination in lending persisted. The evidence overwhelmingly suggests that acts passed by
both the Johnson and Nixon administrations did little to overcome credit discrimination. In fact,

971 Ibid.
972 Ibid.
the move towards a ‘colorblind’ or more ‘objective’ credit evaluation system that promised to judge a borrower as an individual - blind to factors such as race or gender - only gained political momentum when affluent white women organized in protest of existing credit scoring procedures. As historian Louis Hyman explains, underlying the arguments of these credit activists was a belief that “denying poor borrowers credit was justified, but denying the wealthy was not.” To provide ‘deserving women’ the credit they felt due, rich white women pushed for the implementation of computer derived credit scores. This section builds on existing work on credit risk that has highlighted how the Equal Credit Opportunity Act coincided with the rise of financialization and its different perceptions of risk.

In the early 1970s, the National Organization for Women (NOW) argued that static demographic categories should not determine creditworthiness. At the heart of these claims was the belief that any variable that might stereotype an individual was discriminatory. For these activists, the belief was that computer models were the answer to discriminatory lending practices as they presented an opportunity to calculate scores on an individual basis. With this belief gaining popularity, the Equal Credit Opportunity Act (ECOA) was passed in 1974, and forbid credit discrimination on the basis of sex and marital status. The passing of this law served to justify increased credit surveillance and solidified the legitimacy of computerized scoring methods. The passing of the 1974 ECOA quickly provided an opportunity for the inclusion of other ‘statistical data’ that did not relate ‘specifically to that person.’ However, the act did not include race.

Testifying at the hearings to amend the ECOA, Arthur Fleming, the Chairman of the US Commission on Civil Rights, suggested that the ECOA include race. Specifically, Fleming argued that the ECOA needed to cover race because discriminatory lending bore “heavily on the nation's commitment to move minorities into the economic mainstream, and the need to


974 Ibid., 225.
revitalize the economy of the central city.” During the Equal Credit Opportunity Act hearings, it came to light that on a credit score “a person of the Caucasian race might receive seven points, a person of Spanish origin, four points and a black person, no points.” Likewise, a person’s marital status and gender would also receive risk scores that punished non-heteronormativity.

For their part, the two major bank credit card associations favored the elimination of discrimination in credit lending. At the hearings, Interbank representatives testified that they had no knowledge of any form of extensive discrimination of race, color, national origin, or religion in the case of bank credit cards. These representatives reminded those in attendance at the hearing that the association had filed a statement in support of the original ECOA in 1974. Echoing Interbank, John Dillon of National BankAmericard Inc., stated that NBI believed in providing equal credit opportunities. Much like Interbank, NBI reiterated that they believed that incidences of “arbitrary discrimination within the bank credit card industry [are] negligible.” Dillon claimed that NBI had “seen no evidence suggesting the existence of wrongful discrimination based on these characteristics” (e.g. race, religion, or national origin).

Interbank (MasterCard) and NBI (Visa) did not appear in allegations of credit discrimination in the credit card market. As the previous testimony on unsolicited cards demonstrates, bank credit card issuers promoted these devices as ‘democratizers’ of credit. The business model of the bank credit card infrastructure largely focused on gaining market share, producing network effects,


978 Ibid.

977 Ibid.

979 Dillon did admit that complaints were brought forward in the past, but said that these incidences were handled rapidly and informally. Dillon’s testimony indicated that these complaints involved gender or marital discrimination, as he later stated, “To our knowledge, no NBI member inquires about, knows or considers the race, color, religion, or national origin of an applicant when evaluating applications for a BankAmericard,” Ibid.
and promoting high transaction volume leading banks to target underserved and ‘high-risk’ borrowers. As a result, most card issuing banks in the credit card market had shown no interest in restricting credit card access in their initial mail outs and had adopted credit scoring technologies that had removed race, religion, or sex based identity variables from their credit scoring models. With NBI’s largest shareholder, Bank of America, adopting a more environmental approach to lending and promoting itself as serving at the forefront of social responsiveness, NBI advocated policies and penalties that punished lending competitors that did not work towards producing a less overtly discriminatory lending environment.\textsuperscript{980}

The maximum penalty for violations of the ECOA was a fine of 1\% of the net worth of the lending company.\textsuperscript{981} The issue of economies of scale was raised during the original hearings for the 1974 act, where it was pointed out that 1\% of Chase Manhattan’s net worth would be $17.4 million, a relatively tiny sum for the large New York bank.\textsuperscript{982} For comparison sake, the example of the Alma Exchange Bank of Alma, Georgia was given, where 1\% represented $125,000 penalty for the small bank, a sum that would be extremely difficult for the bank to pay.\textsuperscript{983} Anti-Discrimination laws also required banks and department stores to extend their record-keeping to include things like a written log of oral inquiries, a description of the character and location of a borrower’s prospective property, and in every application provide a reason as to why an application was denied.\textsuperscript{984}

While this may appear like a minor inconvenience for banks to prevent discriminatory lending practices, small banks protested that they did not have the capacity to meet these requirements. For instance, in a letter sent to Wright Patman by Jimmy NeSmith (President, First American Bank, Georgia), he claims that "we smaller banks do not have the personnel nor the facilities to

\begin{itemize}
\item \textsuperscript{980} In fact, rumors circulated during debates on ECOA amendments that NBI had helped draft ECOA legislation, Ibid.
\item \textsuperscript{981} Ibid.
\item \textsuperscript{982} Ibid.
\item \textsuperscript{983} Ibid.
\item \textsuperscript{984} Frank Wille, “Memo to the Chief Executive Officers of All Insured State Nonmember Banks,” December 27, 1971, Box 620B, LBJ Library.
\end{itemize}
comply with all of the ridiculous regulations which the Washington bureaus put upon us.”985 NeSmith added – despite strong evidence that suggested otherwise – that “no bank will turn down a good loan, regardless of the race of the borrower.”986 Retailers joined the small banks in protesting the operations measures and penalties being suggested to prevent lending discrimination. Howard Nelson, the manager of the Credit Division for the Beall’s Department Store in Texas, wrote to express the retail industry’s concerns to the Secretary of the Board of Governors for the Federal Reserve. Nelson argued that the provisions and penalties discouraged “small businessman from attempting to compete for fear of violating some law.”987 According to Nelson, this fear to compete would result in many businesses eventually discontinuing “credit for customers, other than by bank cards or card plans, because of the cost and risk involved.”988 The inclusion of these operating expenses and the fear of high penalties pushed retailers to drop their credit operations and led many banks to join one of the two bank credit card associations.

By the mid-1970s, NBI was boasting a membership of 6,000 banks, 15,000 bank offices, with over 29 million cardholders and more than 700,000 participating merchants.989 The increase in membership and merchants was also accompanied, as outlined in Chapter 6, by the continued attempts to deregulate the US financial system. The deregulation of the US financial system enabled large banks to grow even larger, and concentrated wealth and credit card receivables in just a handful of banks. This concentration of wealth and debt in the large commercial banks was, in part, a by-product of the move towards a more institutionalized, yet less overt, discriminatory lending environment that set out to redirect credit to low-income and minority borrowers. As the next section details, a post civil-rights era ‘dual credit card market’ was not established by predatory finance companies but by the large commercial banks in a deregulated banking environment that further entrenched institutionalized forms of lending discrimination.

986 Ibid.
987 Howard Nelson, “Letter to the Secretary of Board of Governor of the Federal Reserve,” June 3, 1975, Box 152B, LBJ Library.
988 Ibid.
989 United States., Equal Credit Opportunity Act Amendments and Consumer Leasing Act-1975 Hearings before the Subcommittee on Consumer Affairs of the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session ... July 15, 17, and 24, 1975.
7.7 The Dual Credit Card Market

With the introduction of an increasingly deregulated banking environment, banks began in the 1980s to introduce an ‘income management’ strategy into their credit card operations.\(^990\) This strategy stressed the pricing of cards, interest rates, discount rates, and interchange fees in a way that the card could potentially overcome the “dips in the economy and fluctuations in the cost of funds” that were now part of the deregulated US financial system.\(^991\) The income management strategy was simple. Bank credit card departments now focused on providing higher credit limits and using advanced credit screening services to better target the ‘unrich.’\(^992\) Although card issuers had pursued high-risk borrowers before, the new income management strategy, in an increasingly deregulated US financial system, sought to be more aggressive in an attempt to increase volume and outstanding debts.

Clausen, looking back on the changes to the banking system brought on by deregulation, noted in 1990 that Bank of America “had learned how to prosper in the highly regulated banking industry, and had learned well” but by 1986 the “situation had deteriorated into a crisis.”\(^993\) Namely, the bank between 1985 to 1987 lost a total of $1.8 billion. In response to this crisis, Clausen claimed that the bank adopted a new strategic management orientation, which while still focused on its long-term future, had decidedly shifted attention to shareholder value. In the increasingly deregulated banking environment where the interests of the ‘investor class,’ as outlined in Chapter 6, were prioritized, Bank of America’s management “focused on how to generate maximum value for our shareholders” and began to manage the “business to produce immediate and certain results” while “being certain not to handcuff [their] future.”\(^994\) According to Clausen, deregulation had forced the bank to re-orientate its management practices and had bank

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\(^{990}\) Levitt, “Lessons Learned from Credit Card Losses.”


\(^{992}\) Mellon Bank and First Wisconsin bank were noted as being the first to really target this demographic, by aggressively marketing their card products to college students. Donald J. Auriemma, “Help for Tired Card Marketing,” *ABA Banking Journal* 76, no. 9 (September 1984): 140.


\(^{994}\) Ibid., 99.
managers trying to balance the short-term interests of shareholders and the long-term survival of the firm. One of the ways they accomplished this strategic objective was by reducing their staff by almost 30%, eliminating nearly 22,000 positions. Bank of America’s management also set out to re-emphasize its position as “the major provider of retail…banking services in the western United States” and joined other bank in securitizing their credit card receivables. 995

Within this new income management strategy, bank credit card issuers received a boost when Bank One in 1984 decided to securitize $50 million of its credit card receivables. 996 Securitization allowed banks to package and sell their outstanding credit card debt, providing a plentiful supply of capital for bankcard issuers to lend to their cardholders. Bank One’s decision led to 45% of US credit card balances being securitized by 1996. 997 James Rokakis, a county treasurer from Cleveland, testified during the Financial Crisis Inquiry Commission’s hearings, “Securitization was one of the most brilliant financial innovations of the 20th century… It freed up a lot of capital.” 998 According to Citibank, securitization currently funds approximately 50% of its current US credit card business – a business that had a purchase volume of over $227 billion in 2015. 999 With a lot of capital, bank credit card lending skyrocketed.

995 Ibid.
996 Hyman, Debtor Nation, 254–55.
997 Ibid., 259.
Securitization tied to an income management strategy led to the formation of a dual credit card market. As Chapter 7 outlines, in 1991 American Express launched the Optima card as a means to compete in a very saturated credit card market. The Optima card introduced a tiered pricing structure into the credit card market. Quickly following suit, Citibank issued the Citibank Classic card, which offered a rate comparable to the American Express card. These initial tiered pricing structures were rather simple. If you had a high charge volume and were not late with your payments, you received an adjusted rate of 12.5%, however, if you were late on a payment or deemed a higher credit risk, your rates would be higher.\footnote{Michael E. Staten and Fred H. Cate, “The Impact of Opt-In Privacy Rules on Retail Credit Markets: A Case Study of MBNA,” \textit{Duke Law Journal} 52, no. 4 (February 1, 2003): 754.} It was a ‘dual credit card market.’

Credit card pricing had now become risk-based rather than static, which not only drove intense competition to attract prime customers through low rates but also led a competitive drive to mine subprime customers. Banks, to price these consumers accordingly while remaining competitive, turned to increasingly sophisticated scoring technologies. During this new era of risk-based pricing, the ABA released a report that signaled the changes that were afoot: "Changes in technology, such as credit scoring, automatic access to consumer reports, and response modeling and other risk analysis techniques, have enabled credit card issuers to better track and assess..."
changes in an individual's risk profile. While credit evaluations had been around for over a century by this point, there was an increased reliance on this data to harvest potentially lucrative ‘sub-prime’ populations to maximize the benefits of the new tiered pricing structure.

According to Columbia Law Professor Ronald Mann, this targeting of legally and financially vulnerable consumers is what makes the credit card infrastructure ‘work.’ The integration of financially vulnerable populations into the revolving credit system is what enables card-issuing banks to generate enormous profits and increase the level of indebtedness for these cardholders. There is little profit to be gained from financially secured credit card users since these users do not generate any interest income, late fees, or overcommit penalties. Card issuers, to generate substantive profits off these penalties and interest charges, have become dependent upon technologies that were meant to eliminate discrimination in lending. According to Mann, the supposedly ‘color- and gender-blind’ credit scoring technologies allow for quick data mining and information analysis to decipher and discover the most lucrative credit customers.

As a report published by the US Joint Economic Committee in 2009 entitled Vicious Cycle noted, “credit card issuers have been seeking to maximize their profits by lending to those who are economically vulnerable and then spreading the risk by securitizing the debt.” Research suggests that four groups of Americans have helped to subsidize low introductory interest rates, taking on a contemporary credit card ‘race tax’: low-income individuals, African Americans, Latinos, and single women. On average 15% of African American, 13% of Latino, and 11% of single women had cards with interest rates higher than 20%, compared to only 7% of white and 6% of single men cardholders. The data suggests that free market solutions and blind credit scoring techniques have not only done little to address racism in the US financial system.

1002 Mann, “Bankruptcy Reform and the ‘Sweat Box’ of Credit Card Debt.”
1003 Ibid., 375.
1005 Soederberg, “The US Debtfare State and the Credit Card Industry.”
1006 Freeman, “Payback.”
In fact, it suggests that these solutions have exacerbated institutional and systemic forms of lending discrimination and financial inequality.

7.8 Conclusion

This chapter has summarized the close relationship between race and gender and the development of the bank credit card infrastructure. It detailed how American commercial banks and bank credit card associations were at the forefront of initiatives to eliminate overt lending discrimination while also devising strategies that aimed to lend to precarious populations profitably. As illustrated with the example of Bank of America, underlying this shift was a transformation in bank management and executives towards environmental governance strategies. Using this environmentality framework, bank executives offered to lend to minority borrowers in return for a more ‘deregulated’ banking environment.

The chapter showed that two related factors in late 1960s banking environment shaped the offer to lend to minority borrowers in exchange for deregulation. The first was the increased confidence, thanks to planning techniques, banks officers had in their ability to lend to high-risk borrowers. This faith led banks and bank credit card associations to argue that their services and products had democratized credit access, and provided ‘affordable’ credit to previously underserved population groups. The other factor that led commercial banks to offer to lend to minority and low-income borrowers had to do with a new management orientation. As A.W. Clausen’s speech revealed, bank executives saw their firm’s future profitability as tied to their ‘environment’ or the cluster of interrelated elements that made up their firm’s surrounds.

Techniques to eliminate intentional racism did little to address and in many ways further entrench American apartheid conditions and institutionalized forms of racism. These techniques were, however, critical elements to both the growth of the bank credit infrastructure and the push to deregulate the US financial industry. As critics of these proposals pointed out, the pursuit of free market solutions ignored the economic, political, and racial history and reality of the United States. As a result, racial discrimination in lending continues today, with many in the protected groups from the ECOA paying predatory interest rates and continuing to be targets of predatory loans. Dual markets continue to flourish, as commercial banks and bank credit card associations accrue large profits by increasing the level of indebtedness for the oppressed and underprivileged.
Chapter 8
The Bank Credit Card Duopoly

8 The Bank Credit Card Duopoly

In 2014, Wal-Mart sued Visa for $5 Billion in damages. In their complaint, the attorneys for the retailer claimed that Visa along with some of the nation’s largest banks had conspired to illegally fix and inflate the fees charged to merchants between June 2004 and November 2012. Wal-Mart’s claim centered on the significant overlap of banks found on the list of top credit card ‘Issuers’ and ‘Acquirers.’ Five banks or financial institutions (JP Morgan, Bank of America, Capital One, Citigroup, U.S. Bancorp) issued credit cards that accounted for approximately 75% of the purchases made on credit cards in the United States. The top five acquirers in the United States and worldwide during this period were just three banks (Bank of America, Chase, and Citigroup) and two payment processors (Vantiv, and First Data). Meanwhile, the payment platforms, Visa and MasterCard, held over 80% market share in the credit card market – in the debit market the figure is closer 91% - with American Express a distant third at 7.5%.

1008 Team, “A Closer Look At The Largest Credit Card Issuers In The U.S.”
1009 Trefis Ibid.
The retailers alleged that due to the concentration of market power, these banks and the payment corporation created an environment that was anti-competitive and were charging merchants predatory prices that did not respond to market pressures.\textsuperscript{1011} The case rested on long-standing allegations that because there was significant overlap in the ownership of the two dominant payment corporations, and that banks often had representatives serve in some governance capacity in both payment corporations, that they colluded and illegally fixed the prices in the payment market.\textsuperscript{1012} These anti-competitive practices alleged by merchants are not unique to the credit card industry but are symptomatic of platform capitalism.


\textsuperscript{1012} Lloyd Constantine, \textit{Priceless} (New York: Kaplan Pub., 2009); Chris Isidore, “Wal-Mart Sues Visa for $5 Billion Over ‘Swipe Fees’”; Reuters, “Walmart Sues Visa for $5 Billion Over Credit and Debit Swipe Fees.”
Recent work on the history of computer networks demonstrates how ubiquitous networked computing helped to ‘platformize’ infrastructure into deregulated, privatized, and splintered systems. Researchers interested in the rise of platforms have defined them as “digital infrastructures that enable two or more groups to interact,” “a digital environment characterized by near zero marginal cost of access, reproduction and distribution,” and the “infrastructure that supports the design and use of particular applications, be they computer hardware, operating systems, gaming devices, mobile devices or digital disc formats.” The platformization of infrastructure, due to the emergence of networked computing, not only helped to create this new environment (e.g., deregulated, privatized, and splintered) but also helped these platforms achieve enormous scale. Thanks to the enormous scale of large digital platforms, most tend to monopolize the markets they enter.

Geographer Paul Langley and economic geographer Andrew Leyshon argue that the focus of platform capitalist business strategies, with their emphasis on long-term growth and venture capital funding, is on building ubiquitous digital systems to extract monopoly rents. They argue that large digital platforms acquire the capacity to extract monopoly rents by continuously searching for means to expand the extraction of data, writing policies that enable them to serve as gatekeepers and work to enclose their digital ecosystem to produce higher network effects. As legal scholar Lina Khan explains, a factor helping these platforms enact anti-competitive practices and collect monopoly rent is that they “control the essential infrastructure on which their rivals depend.” This chapter details how Visa and MasterCard, arguably the first large-
scale digital platforms, provide an historical example of these anti-competitive practices central to platform capitalism and how management practices and decisions helped the payment corporations produce a payment market they now largely control.

The chapter details how the executives and lawyers at the payment corporations formulated operating regulations and organizational by-laws in the 1970s to initially protect themselves from anti-trust allegations and then eventually to maintain their monopolistic control of the payment market. These operating regulations and by-laws enabled the owners of the payment corporations, the large commercial banks, to act as gatekeepers to this growing infrastructure, preventing mostly non-bank competitors from using the system. The chapter details how lawyers representing the payment corporations worked to reconfigure the external legal environment by arguing in court and in a “Business Review” letter that the payment corporations, operating as platforms, helped to create a perfectly competitive payment market. It also highlights how the legal positioning and standing of the payment corporations reflected the changes to the legal environment that led to platformization, emphasizing the transformation in US anti-trust philosophy from a more structuralist to a neoliberal Chicago School approach. Finally, the chapter concludes by outlining how settlements have become a legal technique to maintain the duopoly and anti-competitive practices that sustain the market share of the large payment corporations.

Building on the analysis above, the chapter as a whole claims that corporate strategy aimed at reconfiguring the business environment is a core element supporting the trends toward monopolization associated with platform capitalism.\(^\text{1019}\) The bank credit card infrastructure is a payment network whose ownership lies in the hands of commercial banks. As the infrastructure expanded and as the bankcard associations gained a greater share of the credit card market, it


became the primary payment network for former non-bank competitors in the credit card market (e.g. hotels, retailers, gas companies, airlines).

The dissertation has shown that to achieve the level of growth necessary to force competitors out of the market and secure the future of the bank credit card, commercial banks formed an historic alliance to finance the construction of a nationwide infrastructure. The bankcard associations were joint-ventures that were designed to facilitate the growth of the bank credit card market, while also ensuring the future survival of commercial banks in an increasingly automated financial system. The primary objective of the payment corporations was to build the infrastructure to capture every exchange of value in the world, essentially becoming a privatized payment utility. A clear example of this objective can initially be seen in the case of the Worthen Bank and their attempt to become a member of both NBI and Interbank in the early 1970s.

8.1 The Case of the Worthen Bank

In February 1968, the Worthen Bank became a licensee of BankAmericard.1020 When BankAmericard transformed into NBI, Worthen with its moderate asset base entered as a Class (A) or proprietary member.1021 As described in Chapter 5, Class (A) member in the NBI system was responsible for the issuance of cards, the collection of accounts, and the operation of the interchange system. They were the owners of the infrastructure. The NBI system also included a Class (B) membership, which was composed of banks who would serve as agents for Class (A) banks – a move designed to help spread the geographical reach and transaction volume of the payment system. When NBI and Interbank were formed they had 9,111 banks participating in their nascent bank credit card infrastructure. However, as presented in Chapter 5, only 16% or 1,427 of those banks actually were Class (A) (NBI) or Full Members (Interbank). The overwhelming majority (85%) were Class (B) (NBI) or Associate Member (Interbank) banks serving as agents for larger principal banks.

However, Worthen’s management was not satisfied with only being a member of the nation’s second-largest bank credit card association; the bank applied to become a “Full Member” of the

Interbank system on November 12th, 1970. NBI leadership did not support Worthen’s decision to become a proprietary member of both systems, as they felt that dual membership presented a potential governance and ownership problem. Since both organizations were owned and governed by their membership, dual membership opened the door to the possibility of a merger of the two systems. After all, if a significant overlap in ownership was present, it only made sense to remove any potential competition between these associations. With NBI being the smaller of the two associations, NBI executives feared that dual membership would ultimately result in NBI being taken over by Interbank.

To deal with this potential crisis, NBI in December 1970 informed Worthen that it was considering implementing bylaws that would prohibit proprietary members from belonging to another national or regional bank credit card association. The decision sought to ensure the survival of NBI in the face of a possible merger. Despite NBI’s threat to forbid members from joining other systems, Worthen reached an agreement with Interbank on July 22nd, 1971, making it the first bank to serve as a proprietary member of both bankcard associations. NBI, worried that dual membership would lead to a forced merger with Interbank, acted fast to amend its bylaws. The payment corporation, in an effort to ensure its survival, on October 24th, 1971 passed by-law 2.15 and 2.16. The by-laws – which took effect on December 1st, 1971 - made it clear to Class (A) members that dual proprietary membership was prohibited. According to the new by-laws, so long as a bank did not own, issue, contract to issue, or appear as the owner or issuer of either bankcard then that bank could be a member of any credit card operation.

1022 “BankAmericard Faces Antitrust Suit.”
1023 Ibid.
1024 Interbank did not have a policy prohibiting dual membership and did not follow suit in issuing a new series of by-laws. However, some of their larger member banks did voice their concerns. J.O. Elmer Executive Vice President of Wells Fargo stated: “If dual membership were allowed, it is not known whether banks would issue both cards. If a substantial number of major member banks in the Master Charge/ Interbank System issued both Master Charge and BankAmericard, however, there would be a reduced economic incentive to maintain two interchange systems and competition between interchange systems would be reduced.” The competitiveness of this environment was important. The Department of Justice had enabled Bank of America to license its product to other banks on the basis that competition in the industry would increase. Dual membership threatened that element of competition, as it opened the possibility of further concentration of the bankcard infrastructure from two dominant organizations to just one, Worthen Bank & Trust Co. v. National BankAmericard Inc., 485 F. 2d 119 (Court of Appeals, 8th Circuit 1973). “BankAmericard Faces Antitrust Suit.”
This altered by-law meant that the restrictions did not apply to NBI’s 900 Class (B) banks participating in more than just one system. A bylaw prohibiting their dual membership would have dramatically reduced the volume of sales for NBI’s Class (A) banks that had arrangement in place with these agent banks. The restrictions at this time only applied to Class (A), because the proprietary banks were the owners of the infrastructure and had representatives serving on the Board of Directors. Dual membership threatened both the independence of NBI decision-making and the market share of its largest Class (A) member, Bank of America. Bank of America retained 25% control of NBI, a merger with Interbank presented the possibility of dramatically reducing the bank’s share and control of the infrastructure and bankcard market.

Worthen refused to acquiesce with the new by-laws, filing a complaint and class action lawsuit against NBI with the lower courts in Arkansas on November 26, 1971. The complaint filed by Worthen with the US District Court in Fort Smith, Arkansas, argued that NBI’s new by-laws were violations of Sections 1 and 2 of the Sherman Antitrust Act. Worthen argued that NBI’s new by-laws provided them with the ability to conduct a horizontal group boycott, which would be in violation of Section 1 of the Sherman Act. Under US law, businesses are allowed to refuse to do business with another firm, but an agreement among competitors not to do business with specific individuals or businesses might potentially constitute an illegal boycott if competitors working together have market power (i.e. hold a significant share of a specific market).

Significant market concentration has always been an integral part of the growth and success of the bank credit card infrastructure. When Worthen launched its class action suit against NBI, large national commercial banks held $3.5 billion out of a possible $3.9 billion in bank credit card receivables. They represented only 61% of all credit card issuing banks in the country but held 91% of the receivables. As Andrew Brimmer (Board of Governors, Federal Reserve) remarked in 1972, the large commercial banks already held a “disproportionate share of the credit card market.” The fine line was not between cooperation and competition but rather the

1025 “BankAmericard Faces Antitrust Suit.”
1027 “WORTHEN BANK & TRUST CO. v. NATIONAL BankAMERICARD INC.”
1028 Andrew Brimmer, “Growth and Profitability of Credit Card Banking.”
attempt to maintain and grow an oligopolistic market and avoid anti-trust allegations that could shut down the ever-expanding infrastructure.

NBI’s lawyers claimed that the anti-trust allegations were a threat to the overall ability for the payment corporations to survive independently. In the case of NBI, it predicated its survival based on its independence from the larger Interbank, which it believed would overtake the entire payment market if banks were allowed to join both associations. A merger between the two payment corporations also presented the threat that anti-trust allegations would force the Department of Justice (DOJ) to dissolve the historic alliance supporting the bank credit card infrastructure. Anti-trust laws were not just a nuisance or complication to the overall operation of the bank credit card associations but threatened their long-term survival, as the justice system possessed the ability to dissolve this joint-venture arrangement between banks if it deemed it to be anti-competitive. Thus, the bank credit card associations needed to institute by-laws and defend themselves against anti-trust allegations to ensure their long-term survival and growth. These associations had to work to reconfigure and translate existing anti-trust legislation to constitute a legal environment that was amenable to their long-term survival and growth.

The second violation of US antitrust law charged against NBI was Worthen’s belief that NBI’s by-laws limited market competition. NBI’s defense rested foremost on the argument that their policies did not limit competition, as banks could become members of both systems, as any bank could opt to be a Class (B) (NBI) and Associate Member (Interbank). The association also emphasized that these by-laws were in place to protect the competitive nature of each bankcard system. Without the prohibition on dual proprietary membership, NBI asserted that banks would have no incentive to maintain two separate systems and that this would put undue pressure on NBI (the smaller of the two systems) to accept a merger with Interbank. Judge John Miller ruled in favor of Worthen, finding that NBI’s by-laws put into motion a group boycott against Worthen. The court also found NBI’s by-laws to be in restraint of trade or commerce and as such anti-competitive.

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1029 “WORTHEN BANK & TRUST CO. v. NATIONAL BankAMERICARD INC.”
1030 “Tucker to Join Appeal Against Americard.”
1031 Miller based part of his judgment on the 1945 antitrust case between the Associated Press and the US government. Specifically, he utilized the Associated Press case to reply to NBI’s argument that dual
The approach taken by NBI to modify the interpretation of the law in its appeal of the lower court’s decision was to argue in front of the 8th US District Court of Appeals in St. Louis that the bankcard associations were unique organizations existing in a new banking environment. In September 1973, the three-judge appellate court agreed with this narrative produced by the bankcard association’s attorneys, stating: “The bank credit card industry is a relatively new one, with over $8 billion in annual business, a very large and important segment of our economy.” They concluded that the complexity of the case and uniqueness of the associations required a full trial. Ultimately, Worthen settled their suit with NBI in January 1975. Worthen agreed to conform to NBI’s operating regulations, and NBI reimbursed a portion of Worthen’s legal fees.

The associations promoted the infrastructures as unique systems that fostered cooperation, innovation, and competition between thousands of members. This promotion was meant to present the associations as creating an environment that produced a perfectly competitive bank credit card market. In reality, it masked the underlying reality of NBI and Interbank. Large commercial banks dominated these organizations. The infrastructures were non-stock corporations, meaning that their interest was on growing, securing and maintaining by any means necessary their members’ share of the credit card market. It was an infrastructure designed to circumvent bank regulations and expand the reach of the bank credit card as a global payment system. Unfortunately, the intricate arrangement took for granted that both internal and external membership would inherently result in the merger of the two card systems – a potential violation of antitrust laws. Miller cited the following passage from the judgment of the US Supreme Court in the Associated Press case: “The argument appears to be that if all be allowed to join AP, it may become the only news service, and get a monopoly by driving out all others. That is perhaps a possibility, though it seems to us an exceedingly remote one; but even if it became an actuality, no public injury could result. For, if AP were open to all who wished the service, could pay for it, and were fit to use it, it would be no longer a monopoly: a monopoly of all those interested in an activity is no monopoly at all, for no one is excluded and the essence of monopoly is exclusion,” “WORTHEN BANK & TRUST CO. v. NATIONAL BankAMERICARD INC.”


competitors would not seek to modify the environment in their own self-interest, or the survival and growth of their own operations.

With the Worthen case settled, NBI felt emboldened to expand its anti-duality by-laws to prohibit dual-membership for both Class (A) and (B) members. They also included a clause that extended their regulation to ban the issuing of competing debit cards. Prohibiting member banks from issuing others debit cards was meant to induce more transaction volume over NBI’s infrastructure, increasing its growth and market share. NBI’s legal team, to avoid any possible litigation arising from the amended by-law, sent a “Business Review” letter to the Antitrust Division of the Department of Justice.

Sent in November 1974, the letter stated that the amended by-law was to “maintain and enhance competition between competing national bank card systems and between their respective members.” The attorneys representing NBI suggested in the letter that it was the association’s opinion that joint membership would be inconsistent with the competitive makeup of this unique banking environment and result in a merger of all or part of the entire bankcard system. NBI’s lawyers closed their arguments by stating that the removal of the duality ban would threaten the long-term survival of NBI, as it would surely be forced to merge with Interbank – a move that could potentially dissolve the growing nationwide bank credit card associations because of anti-trust violations.

The Department of Justice (DOJ) provided a two-part reply to the NBI request in October 1975. In the first part of their reply, the DOJ ruled that the amended NBI by-law prohibiting an agent bank from serving as an agent for another system impeded efforts to form competing systems, thus diminishing competition. However, the DOJ did not have an issue with NBI prohibiting

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1035 The decision to place restrictions on debit cards was because NBI was set to introduce its new Entrée debit card in the fall of 1975. The debit card was to be accepted by the 1.7 million merchants that accepted the BankAmericard, and would operate on NBI’s BASE I and BASE II nationwide automated data transmission system. Keith Kiley, “NBI’s NEW DEBIT CARD,” Banking 67, no. 10 (October 1975): 16.


1037 Thomas Kauper, “Department of Justice Response” (Department of Justice, October 7, 1975), Plaintiff Exhibit P-0955: U.S. V. Visa U.S.A Inc., Et Al. | ATR | Department of Justice.
a Class (A) member from becoming a card-issuing member of another bankcard association. They felt that this portion of NBI’s anti-duality clause was pro-competition and was necessary to ensure intersystem competition and a competitive bankcard environment. The sticking point for the DOJ was the inclusion of ‘debit cards’ in the anti-duality clause.

Unlike the operational philosophies and regulatory prescriptions shaping the bankcard environment, the DOJ was reticent to offer their support based on the anticipation surrounding electronic fund transfer (EFT) systems. In their response letter, the DOJ conceded that it was impossible for them to come to a firm ruling as it related to debit cards and EFT, because “at this point one can only conjecture what the future holds in store in the EFTS area.” The DOJ wanted to ensure that any decision it made regarding EFT and debit cards protected the best interests of consumers and allowed the maximum amount of flexibility and competitive opportunities for innovation. The DOJ felt that supporting NBI’s by-law restricting their members from participating in competing debit card systems would not only be preemptive but also went against the spirit of anti-trust laws. As a result, they concluded the letter by stating, “we cannot state that the DOJ would not institute a civil enforcement action should NBI adopt proposed by-law 2.16”. The DOJ response left NBI with a difficult decision to make. Even though it had won its case against Worthen, the DOJ did not accept NBI’s new by-laws as per se legal. Additionally, there was no guarantee that another bank would not press the issue of duality again in court, which would be costly for NBI. The legal process forced NBI to re-examine its organization and operating procedures.

NBI’s Board of Directors, teetering over a space of uncertainty, decided aggressive actions needed to be taken to ensure the survival of the association and grow their member’s share of the credit card market. Operating under the new name Visa, executives at the payment corporation decided to lift the duality ban, seeing the removal of the by-law as an opportunity to increase its market share. However, before launching its rebranding marketing campaign in September of 1976, Visa pre-emptively approached a select group of Interbank members to join their newly liberalized membership system. The Board of Directors sought to avoid a forced merger by trying to become the larger of the two associations.

1038 Ibid.
1039 Ibid.
Visa made another aggressive move to attract its competitor’s members in August 1977, when they announced that they were now allowing banks that offered Master Charge to process their transactions on the Visa USA infrastructure. NBI’s management decision meant that Interbank members did not even have to be a Visa member to utilize their BASE I and BASE II nationwide data transmission system. In their announcement, Visa officials made it clear that they planned to be the triumphant system if the two systems ever did merge due to the lack of an anti-duality clause. With Master Charge banks now issuing “Visa” cards, by 1978 Visa saw its market share increase to the point that it began to overtake Interbank as the leader in the bank credit card field. Visa’s management team saw an opportunity to adopt a strategy that fundamentally altered their infrastructure, which aligned with the legal infrastructure of the United States and met their objective of survival and growth. However, it also created a bank credit card market where the two dominant platforms shared an increasingly common ownership.

Despite the newly liberalized membership structure and common ownership, Visa and Interbank did not merge, as both continued to protect their market position feverishly. Ultimately, however, they wanted to avoid costly and possibly fatal antitrust allegations. The new membership environment and joint ownership opportunities did help dissuade banks from launching further anti-trust allegations that threatened the survival of these organizations.

### 8.2 Competing Systems Working Together

By the mid-1980s, the top five bank credit card issuers in the United States accounted for 44% of the cards issued in the United States. At the top of this list were Citibank, Bank of America, and Chase Manhattan, who had become by far and away the largest card issuers. Thanks to the removal of anti-duality by-laws, these banks now offered both Visa and MasterCard. Combined they issued over 34,000,000 credit cards in the United States and had a sizeable investment in the operations of both credit card platforms. In fact, of the top 50 issuers in the United States, only two banks issued only a Visa or MasterCard. The other 48 issuers were issuing both cards often in the hundreds of thousands, if not millions.\(^\text{1041}\)

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\(^{1040}\) Stearns, *Electronic Value Exchange*.

The large overlap in ownership had member banks turning their attention to the operational environments of Visa and MasterCard. Competition between these two behemoths of the payment market threatened the stability of fraud prevention (security), prices (profits) and ultimately the ability of card issuing banks to overcome the ebbs and flows of the US economic system (growth). However, it ultimately did not make sense for owners of both systems to pit one payment corporation against the other. Member banks from both associations began to discuss the possibility of implementing a uniform set of regulations and fees, and ultimately the merger of the bankcard systems.

By the mid-1980s serious cooperative efforts began to take shape. In September 1984, the payment companies issued a joint announcement that they would be cooperating in five key areas of their operations: 1) single card recovery bulletin, 2) anti-counterfeit technology, 3) one technology for dynamic signature verification, 4) central list of canceled merchants, and 5) unified investigative efforts by the security staff. The initial efforts were mainly in place to increase the security of the infrastructure. With that said, the meeting did serve to expand communication between the organizations and to begin discussions on introducing a common bankcard environment through a subset of operating regulations.

Coinciding with this increase in joint operation policy and talk of a possible merger between the two dominant payment corporations was a change in the philosophy and enactment of anti-trust laws. Legal scholars Lina Khan and Sandeep Vaheesan argue that beginning in the 1970s American courts started to advance anti-trust decisions based upon precepts and assumptions informed by the Chicago School of economics. The Chicago school represented a stark departure from previous anti-trust philosophy that stressed the protection of consumers and suppliers from noncompetitive pricing, preserve open and competitive markets but also to prevent the formation of a politically dominant oligarchy. This legal philosophy, known as the structuralist approach, concentrated on competitive processes as opposed to outcomes. It

1042 “Joint Meeting of Executive Committees of the Board of Directors: Associations’ Cooperative Efforts Status Review” (Dallas, Texas, January 9, 1986).
1043 Khan and Vaheesan, “Market Power and Inequality,” 275.
1044 Ibid., 267.
emphasized the need to avoid any undue form of economic concentration by preventing the monopolization of markets.

In contrast, the Chicago School prioritized outcomes in the form of prices in its anti-trust philosophy. By prioritizing price, the Chicago School argued that mergers and market monopolies had little effect on competition. According to economist Philip Mirowski, neoliberal thought leaders claimed that monopoly was not harmful to the state and was the result of errant state policies.\textsuperscript{1045} Legal scholar and economist Richard Posner argued that essential to the Chicago School’s anti-trust philosophy was a faith in the efficiency of liberalized free markets coupled with the profit-maximizing intentions of rational economic actors.\textsuperscript{1046} Political Scientist Marc Allen Eisner points out that this assumption rested on the belief that “rational economic actors working within the confines of the market seek to maximize profits by combining inputs in the most efficient manner. A failure to act in this fashion will be punished by the competitive forces of the market.”\textsuperscript{1047} During the same era, as bank executive and payment corporations stressed long-term corporate performance and growth over immediate profit maximization, the philosophy of the profit maximizing rational actor provided a framework for anti-trust interpretations that claimed that predatory pricing, barriers to entry, or other anti-competitive practices were illogical and unsustainable, meaning that legal intervention was rarely needed.

Khan reiterates that the logic behind this anti-trust viewpoint does not match the reality of contemporary business strategies, especially the corporate strategies guiding the large digital platforms beginning to emerge in the 1970s. As highlighted in previous chapters, the corporate strategies guiding the bank credit card association was growth and survival, and not the immediate maximization of profits. These payment corporations, formed as a joint-venture arrangement between competing banks, were provided leeway by these banks to prioritize the growth the bank credit card infrastructure and ensure the survival of this system by claiming a greater and greater share of the payment market.


\textsuperscript{1046} Posner, “The Chicago School of Antitrust Analysis.”

Despite the emergence of this type of platform business strategy and several anti-trust allegations already brought forward by the bank credit card associations, the Reagan administration started to entrench the Chicago School philosophy into its court system systematically. As Khan details, “with the appointment of numerous conservatives to the federal antitrust agencies and judiciary, the Reagan administration ushered in a radical revision of the anti-trust laws that previously promoted competitive markets.”¹⁰⁴⁸ The bank credit card associations were cognizant of the changes in anti-trust philosophy. In fact, MasterCard CEO Russell Hogg had this to stay on the issue:

The government philosophy on antitrust has changed radically. Right now, antitrust policy is quite liberal. Besides, it's like General Motors making both Pontiac and Chevrolet. As long as Visa and MasterCard are owned by the same people—the banks—and joint operations demonstrate savings for those owners, how can the merger be called illegal?¹⁰⁴⁹

Hogg’s statement reflected little concern over maintaining a competitive market, a staple of early arguments presented by these associations to maintain ensure their long-term survival. With a relaxed regulatory environment, by the mid-1980s the bankcard associations were growing more and more comfortable working in unison. In October 1985, the associations agreed to explore the idea of sharing a Washington lobbying presence that would be responsible for monitoring any legislation that pertained to their operations. This decision pre-empted the more drastic decision to hold a set of formal meetings featuring the corporations’ top management and executives.

In early 1986, the chairmen, CEO’s, and eight representatives from Visa and MasterCard met in Dallas, Texas to discuss the cooperative initiatives started in 1984. At this meeting, these executives decided to continue to combine forces in six key operational areas outlined in the 1984 announcement and would look to increase “back office” cooperation.¹⁰⁵⁰ Once again, one of the highest priorities was improving the security of the infrastructure. The security of the

¹⁰⁵⁰ “Joint Meeting of Executive Committees of the Board of Directors: Associations’ Cooperative Efforts Status Review.”
infrastructure was one of the main elements of the bankcard environment the two payment corporations could cooperatively modify without an accusation of breaking anti-trust laws.\textsuperscript{1051}

On top of increasing their surveillance intelligence, the associations decided to continue to work together to improve the communication link between their authorization processes. One of the principle ways to achieve better communication between the systems was to establish common authorization environment through uniform operation rules and standards. The associations decided that this could be done by forming an agreement to continue to work together to establish debit card standards and investigate technologies for signature verification and ‘card secure’ technologies. However, the most significant development out of these meetings was the decision by these associations to form a joint debit card venture entitled, Entrée.

Entrée was formed in 1987 to suppress PIN debit cards, which the associations feared would replace their more lucrative credit card transactions. To diversify their product lines, Visa and MasterCard had invested and acquired existing debit card technologies and networks. Over the course of the 1980s, MasterCard and Visa purchased nationwide debit card systems (e.g. Plus System acquired by MasterCard and the Cirrus System by Visa) and began cooperative efforts with the largest debit card system Interlink.\textsuperscript{1052} In line with the cooperative efforts to establish uniform debit card regulations with the ABA, in 1987 Visa and MasterCard formed the joint Entrée debit card program. Under the Entrée program, banks would buy a $1,000 license fee and pay an annual five-cent per card fee to place the new Entrée logo on their existing ATM cards.\textsuperscript{1053}

\textsuperscript{1051} Visa and MasterCard joined forces in 1986 to counter-act security risks and fraud losses. To facilitate this merging of security services, the executives in attendance announced that their respective Security Departments would begin to coordinate their efforts of fraud prevention. By coordinating their efforts, the associations could now affect an immediate transfer of security intelligence between security departments allowing for greater surveillance of card users and misbehaving merchants. The two associations decided to consolidate their fraud intelligence and to issue a joint warning bulletin for merchants who did not yet have direct link authorization and a combined terminated merchant file for those merchants who failed to comply with their fraud prevention efforts, Ibid.

\textsuperscript{1052} Constantine, Priceless, 22.

\textsuperscript{1053} IDG Network World Inc, Network World (IDG Network World Inc, 1987).
However, while 1.5 million Entrée cards were in circulation, there was not a single merchant who accepted the card. The cards could only be used to make withdrawals from ATMs.\textsuperscript{1054} Debit card fees were minimal compared to credit card fees, as the former resulted in merchants paying the banks a few cents per transaction not a merchant discount rate or percentage of the purchase, as was the case with the credit card. Additionally, debit cards were not extensions of revolving lines of credit, meaning that interest was not being paid on unpaid balances, and usually, the debit card was attached to an account that had lower annual fees than a credit card account.

On July 26, 1989, thirteen state attorney generals sued Visa and MasterCard, alleging that these companies were working together to monopolize the credit card and debit card markets.\textsuperscript{1055} However, the two markets being monopolized were not entirely separate. Evidence emerged through subpoenas and interviews that Visa and MasterCard officials were working together to suppress PIN debit technology and protect the highly lucrative credit card transactions. Framing the issue in terms of the potential harm posed to merchants and consumers, New York Attorney General Robert Abrams charged that Visa and MasterCard had “moved to monopolize the emerging market and restrict the release of the new [debit card] to protect the profits of their credit card business.”\textsuperscript{1056}

By combining efforts in the form of Entrée, Visa and MasterCard were being accused of prohibiting competition in the debit card market and ensuring that their credit card operations would not suffer with the introduction of another convenient, but less profitable, way to pay. In the end, Visa and MasterCard settled with the attorney generals, agreeing in 1990 to halt their joint Entrée debit card program.\textsuperscript{1057}


\textsuperscript{1056} Quint, “Mastercard and Visa Sued Over Debit Cards.”

Despite the failure of Entrée, the lifting of the anti-duality by-laws had significantly altered the bankcard environment. Large banks now had representative the Board of Governors for both Visa and MasterCard creating what amounted to a joint ownership structure. This joint ownership placed pressure on these once competitive associations to coordinate their actions, focusing on securing and growing the duopolistic bankcard infrastructure. Bolstered by a newly liberalized legal environment, the payment corporations were emboldened to talk for the first time of merger and organized formal meetings to discuss areas of cooperation. However, the operating regulations of the payment corporations continued to face a litany of antitrust allegations, now from outside the association. This time the suits were not brought forward by disgruntled members, but from parties who had an alternative form of investment in the infrastructure.

8.3 Discover the Competition

In the late 1970s and early 1980s, Visa faced major lawsuits from non-bank members that argued that their corporate policies and practices were anti-competitive. Independent payment processors saw an opportunity with the introduction of automated payment systems to offer a competitive technological payment processing service to merchants – offering the much-promised price competition promoted by the card associations. The first independent payment processor to sue Visa was Nation Bancard Corporation (NaBanco). NaBanco had served as an agent for member banks of the two dominant card organizations. In its role as an agent member, NaBanco served as an intermediary collecting the merchant discount fee and paying the interchange fees. NaBanco’s profit in this scheme was derived from the difference between the discount rate and the interchange fee.1058 Its profit margins were dependent on these two fees remaining responsive to market pressures, but NaBanco in its case insisted that Visa’s fees were always established in a manner to benefit its Class A members.

In particular, NaBanco claimed that Visa’s “on-us” operating policy for certain transactions made the bank credit card market anti-competitive. “On-us” transactions referred to payments processed with no interchange fee because the card-issuing bank also served as the merchant

acquirer, meaning that the payment transferred from accounts held by the same bank.\textsuperscript{1059} Both the US District Court in Florida and the US Court of Appeals agreed with NaBanco that Visa’s operating regulations enabled the fixing of its interchange prices, or the charging of predatory prices. However, the courts also agreed with Visa’s argument that these prices were necessary for the infrastructure to compete and survive in the payment market. Despite NaBanco’s protests, the presiding judge accepted Visa’s argument that its interchange rules were “necessary for the orderly operation of Visa’s unique payment system.”\textsuperscript{1060}

In the case, Visa’s lawyers claimed that there was no precedent to the bank credit card infrastructure, these were platforms owned by thousands of competitors and as a result, presented a perfectly competitive market. The argument presented by Visa rested on the premise that competitors entered into a joint-alliance to build the infrastructure to compete with each other, and given that there were so many members that there were very little barriers to entry for new competitors interested in joining this market.

The NaBanco decision was also premised on the court’s belief that there was no such thing as a ‘credit card’ market. In the court’s opinion, the payment market was composed of cash, checks, money orders, traveler’s checks, and debit cards. Once again, Visa’s narrative that it operated in a new banking environment helped it avoid penalties and further actualize a legal environment that accepted the private payment system as unique and its anti-competitive practices and policies as necessary for its survival and growth. The courts, with the help of Visa’s lawyers, legally established the market for Visa and MasterCard and justified their internal operating regulations.

However, the argument presented by Visa’s legal team and accepted by the courts in these early cases ignored the concentration of the bank credit card market in the hands of only a few large banks, now serving as owners of both dominant payment corporations. It also failed to recognize the growing dependence that organizations, merchants, and consumers outside the world of banking had on this new platform. Finally, it also failed to recognize that the payment


\textsuperscript{1060} Weinstein, “Court Upholds Visa Interchange Fee.”
corporations did not prioritize the immediate maximization of profits but rather worked to secure
the payment market for its owners, commercial banks, by constructing the infrastructure to
facilitate its expansion. However, NaBanco was not the biggest threat to the survival and market
share of the bank credit card infrastructure. Instead, large national retailers remained the largest
potential competitor to the bank credit card.

Department store credit cards had been the biggest competitive threat to bank credit cards
throughout the 1960s and 1970s. With the popularity of the bank credit card gaining immense
momentum in the mid-1970s into the 1980s, thanks in no small part to the implementation of
advanced automation technologies and a changing banking environment, banks firmly
entrenched their grip of the credit card market. However, when Sears acquired full-service
brokerage firm Dean Witter in 1981, the retailer believed it had a legitimate chance to carve out a
place for itself in the credit card and wider financial services environment.1061

In the summer of 1982 Sears Roebuck and Co. decided to take the risk of entering into the
financial marketplace. That year Sears opened eight financial service centers as a corporate
experiment to see whether a retailer could run a profitable financial services operation.1062 Sears
was the world’s largest general merchandiser with 831 main retail stores plus an additional 2,388
catalogue outlets and had a long history of in-store credit.1063 The Sears department store credit
card gave Sears access to credit files on close to 40 million Americans by the early 1980s, so the
idea was plausible.1064 They were set to sell “stocks and socks,” using their retail stores to lure
consumers into their Dean Witter locations now located inside their popular stores.1065

Within two years of building of the Sears Financial Network, Sears had financial centers in 302
locations in 42 states.1066 However, despite the growth of the Sears network, the initial response

1061 “‘The Only Thing We Have to Fear Is Sears Itself,’” ABA Banking Journal 75, no. 10 (October 1983): 58.
1062 “Has the Sears Threat Been Overblown? Or Is It a Sleeper?,” accessed October 10, 2016,
http://connection.ebscohost.com/c/articles/6290727/has-sears-threat-been-overblown-sleeper.
1063 “‘The Only Thing We Have to Fear Is Sears Itself.’”
1064 Ibid.
1066 Ibid.
from American commercial banks to Sears decision to enter into the financial service industry was indifference. Bankers interviewed on the subject said that they had not detected any direct effect of Sears’ new venture on their business, and did not suspect that they would face any real competition for some time. Sears was a potentially long-term threat, but at that point, they were not considered dangerous. However, Sears’ decision to get into the credit card market helped to change the mood and attitude of banks towards the retail giant.

As part of their new deregulated financial environment, Sears set out to purchase banks in the regulatory safe-havens of Delaware and South Dakota. Much like the large banks, Sears was interested in banking out of Delaware and South Dakota due to the removal of usury laws. In 1985 Sears acquired the Greenwood Trust Company based out of Delaware. With the purchase of Greenwood Trust Co. Sears had acquired its Discover card operations. Next, Sears purchased the Hurley State Bank to establish a nationwide credit card operation out of Delaware and South Dakota for the newly purchased Discover card. With Sears having a new financial network and a large retail presence across the country, the newly implemented Discover card saw its acceptance rate by merchants increase significantly, from 18% in 1985 to over 25% in 1986. Sears had gone from a somewhat laughable – “stocks and socks” blip in the bankcard environment to a serious competitive threat.

Bankers were becoming increasingly incensed over the variables within the banking environment that allowed Sears as a retailer with a massive credit file and nationwide reach to move into the banking industry. To address these growing concerns, in 1985 Visa and MasterCard issued statements telling their members not to panic over Sears’ decision to launch and expand the Discover card, but to be wary and not to sell the retailer short. Specifically, the bank credit

1067 “Has the Sears Threat Been Overblown? Or Is It a Sleeper?”
1068 “Sears Buys State Bank.”
1070 Carlton and Frankel, “The Antitrust Economics of Credit Card Networks,” 643.
1072 “MasterCard, Visa, and the New Kid.”
card associations cited Sears’ powerful data-processing network, huge cardholder base (the largest unilateral base in the whole world), and significant brand loyalty, as its major strengths. These strengths combined to make Sears a formidable competitive threat in the credit card industry.

To confront this menace to its market dominance, Visa executives hired the global management-consulting firm Bain & Company in 1987 to translate the trends in the credit card market and formulate a long-range strategy for the company and its policies. In their presentation to Visa’s Board of Directors, Bain & Company consultants noted that from 1985 to 1987 there was an overall decline in volume growth in the credit card market. The consulting firm claimed that the cause of the decline in volume growth was over saturation, which in turn was creating a bankcard environment that was increasingly competitively ‘hostile.’ In this situation, ‘hostile’ meant that non-bank payment corporations were causing disruptions within the credit card market, threatening the hold that commercial bank associations had on the market.

The consultants claimed that bankcard associations should not only be concerned over the expansion of Sears’ Discover card but also the introduction of American Express’ new Optima card in 1987. The non-competitive environment prompted American Express to make the bold move of offering a card with a 13.5 annual percentage rate, which was considerably lower than the 17.57% national average offered by commercial banks. The Optima card presented a serious threat to the interest rate structure of commercial bank credit card issuers. Namely, the Optima card threatened to ‘un-stick’ the credit card interest rates offered by these issuing banks.

In 1991, Northwestern University economist Lawrence Ausubel published a controversial article entitled, “The failure of competition in the credit card market.” Ausubel was interested in unpacking why a market that had over 4000 firms and lacked any major regulatory barriers had ‘sticky’ interest interests and supra-competitive profits. The combination of unresponsive interest rates resulting in higher than expected profits was a paradoxical phenomenon in the world of

1073 Ibid.
economic theory, which operated under the assumption of the profit maximizing rational actor. If the credit card market were atomistically competitive, as the card associations claimed, one would expect interest rates or credit card prices to be responsive to environmental factors such as fluctuations in the cost of money or consumer price sensitivity.

However, empirical evidence suggested bank credit card pricing and interest rates were not responsive to competitive pressures. The interest rates of the perceptibly perfectly competitive market composed of thousands of competitors operating on two central infrastructures remained ‘sticky.’ Stickiness refers to the resistance of a price to change even in the face of broader changes in the economy. If the interest rate was responsive to competitive pressure and economic changes such as the cost of money, there should be evidence of a substantial correlation between interest rates and the costs of funds for banks. However, while the cost of funds decreased during the 1980s, credit card interest rates remained virtually constant. If the market was not functioning in perfect competition, the result of this price stickiness and cost drop would be supra-normal profits. The low rate of the Optima card represented a threat to this stickiness and supra-normal profits, as it offered consumers an interest rate much lower than that offered by commercial bank issuers.

In the 1980s, credit card receivables went from $70 billion in 1982 to $203 billion in 1989, with more than $130 million of this amount coming from a Visa or MasterCard balance.\[^{1076}\] The evidence suggested that credit card issuers were earning three to five times the expected rate of return on these cards. According to the card associations, the stickiness of their interest rates was not as a result of deceptive or colluding market practices, but rather a reflection of the riskiness of the high-volume credit card industry. They suggested that after factoring in the costs of charge-offs and fraud, including the costs of screening for credit-worthy customers, the profits descend back down to competitive levels.\[^{1077}\]

Ausubel was not convinced that higher losses were the explanation behind the stickiness of interest rates. The card associations’ argument rested on the assumption that interest rates were

\[^{1076}\] Ibid., 51.

determined solely by costs, meaning that higher interest rates accompanied consumers deemed to be higher risk. However, Ausubel claimed that the profits and credit card market structure suggested that the correlation might run in the opposite direction. Ausubel offered the following hypothesis: increases in interest rate spreads caused increases in charge-offs, or the acceptance by creditors that a debt will not be repaid. He based his hypothesis off of the assumption that given the supranormal profits of the industry, “if firms do not compete and drive price down toward marginal cost, they are likely instead to compete and drive marginal cost up toward price.” In other words, commercial banks offering credit cards were not competing to reduce prices but competing to raise the costs of their operations by increasing the amount of risk they assumed, primarily through targeting – as outlined in Chapter 7 – the ‘unrich.’

Thanks to the insulation provided by the payment corporations working together to reduce external competition through their policies and operating regulations, bank credit card issuers were driving up their costs, such as defaults or charge-offs, by targeting higher risk consumers. Ausubel conceded that the only rational conclusion to be drawn from this evidence was that, “banks must be driving up their marginal costs by issuing cards to less credit-worthy customers to match the price and rationalize the interest rates.” American Express’s low-interest Optima card presented a threat to the high interest rates offered by commercial bank issuers, as it potentially could lure lower-risk or prime consumers away from the bank credit card. While these consumers did provide the same level of potential profit as higher risk ‘revolvers,’ they held the potential of increasing the network effect of American Express and potentially expanding their share of the credit card market.

To combat this potential threat, Bain consultants recommended that Visa’s executives continue to implement marketing strategies that presented Visa as the industry leader and pre-emptively inform their key investors (members and merchants) of the competitive threat posed by Discover and American Express. To achieve these objectives, Visa’s management launched a $4.5 million dollar marketing campaign and instructed its members to stop offering American Express


\[1079\] Ibid., 73.

\[1080\] Ibid., 75.
products. Charles Russell (Visa’s CEO) sent a telegram to 5500 Visa Members encouraging them to “rethink their position” with regards to offering their customers American Express’s new Optima credit card, and to stop selling their traveler’s checks. It was a bold move motivated by member dependence on the Visa platform and Visa’s relative market strength. Visa also launched a $4.5 million marketing campaign against its competitors in 1987.

The “And they don’t take American Express” media blitz included ads on Television, *The Wall Street Journal*, trade publications, and the *American Banker* magazine, hitting all three of Visa’s key demographics (Members, merchants, and consumers). These ads did not target their largest ‘competitor,’ MasterCard, but instead primarily sought to convince consumers that they could not depend on America Express as a payment device due to its lack of acceptance, and to Members and merchants that American Express was not the market leader. These practices were aimed at diminishing the competitive threats presented by the new pricing structure introduced by American Express and the growth of Sears Discover Card. However, the competitive response from Discover and American Express was not something that either Bain or Visa anticipated.

In 1988, Visa USA was sent a letter from the Texas Commerce Bank in Austin, informing them that American Express representatives had been calling some of their merchant clients with an offer. The offer was simple. Allow an American Express representative to visit your store and reprogram your dial terminal device. The reprogramming of the device would enable merchants to receive and process American Express transactions at the same discount rate as being offered by their acquirer bank. This alteration allowed American Express to increase the acceptance of its card, offer a competitive price but also eliminate the interchange cost charged to the Visa member bank. American Express even had the boldness to call the acquiring banks of these merchants and ask for their bank identification number so that they could process any Visa and

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MasterCard transactions that went through the newly reprogramed dial terminals. Visa’s Board of Directors was not pleased with this development and quickly passed Operating Regulation 10.6.9, which prohibited Visa Members from appointing or permitting American Express to act as their agent for merchant sign-up. Despite these modifications, Visa’s competitors continued to seek out opportunities to create value through modifying variables in the bankcard environment.

On December 19th, 1988 Sears subsidiary Greenwood Trust applied to become a ‘proprietary member’ of Visa. This move made by Sears came after Visa passed operating regulation 10.6.9, which prohibited Sears and American Express from serving as agents or class B members of Visa. In response to Sears application, Visa’s Board of Directors decided in June 1989 to amend by-law 2.06. The amended by-law now read, “[Visa] shall not accept for membership any applicant which is issuing, directly or indirectly, Discover cards; and applicant shall be deemed to be issuing such cards if its parent, subsidiary or affiliate issues such cards.”

The amended by-law modified Visa’s operational environment, sought to diminish non-bank competition, and granted Visa the authority to reject Greenwood’s application. Visa’s rejection of Greenwood’s application for membership did not deter Sears from continuing their attempt to become members of Visa’s infrastructure. The next route to membership was through acquisition. Sears

1084 Ibid.
1085 Visa’s Board of Directors reasoned that the reduction in intersystem competition was due to these card companies not allowing Visa Members to sign up merchants for their companies. However, the letter was clear to state that this regulation did not prohibit competitors such as Sears and American Express from serving as a third-party processor for Visa transactions. In a move to appease Members who saw some value in having these card companies serve as agents, Visa announced in the letter that it had reached an agreement with American Express and Sears that would link their processing systems to the VisaNet system, helping Visa retain control of the payment environment. No longer would dial terminals need to be reprogrammed by American Express representatives. Rather, American Express and Sears settled on access terms that were similar to those that were available to third-party processors, VISA USA Inc, “Member Letter Card Operations: Appointment of American Express and Sears (Discover) as Agents for Visa Transactions,” September 30, 1988.
1086 Up to this point, there was no by-law prohibiting a subsidiary of a large corporation from serving as a proprietary member of Visa. Other corporations such as Ford, General Electric and even a retailer J.C. Penny owned subsidiaries that were proprietary members of Visa. Unlike Sears, Visa did not see the involvement of these other corporations as a menace to its infrastructure, Ibid.
bought the Mountainwest Savings and Loans to acquire its Visa membership and portfolio. Not surprisingly, after Visa investigated Mountainwest’s application, they claimed that it violated operating regulation 2.06 and revoked Mountainwest’s membership.

At this point, Sears decided to take the issue to court, filing a lawsuit in January 1991 in the Federal District Court of Utah. Sears, having manipulated every conceivable variable in Visa’s organizational environment, claimed that Visa was once again violating Section 1 of the Sherman Antitrust Act by instituting operating regulations that were anti-competitive. At the heart of the Sears argument was the suggestion that because Visa at the time held a 70% share of the credit card market, they could exercise power over the market. The exercise of power came in the form of Visa’s ability to modify its competitive environment by making rules that restricted entry into its infrastructure. Sears claimed that Visa constantly modified its operational environment to exclude competitors to reduce competition to keep interest rates and profits high.

In response to Sears’ allegations, Visa claimed that membership in its infrastructure was not necessary for Discover to compete in the credit card market. Visa’s attorneys pointed to the fact that Sears was the largest payment card issuer in the United States and the Discover card while only controlling 6.6% of the credit card market was according to Sears a profitable operation.

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1087 Sears subsidiary Dean Witter acquired the assets of the insolvent Mountainwest Savings and Loans from the Resolution Trust Corporation - assets that included Mountainwest’s. It was part of Visa’s by-laws that when a member was re-chartered or acquired that they must re-submit an application for Visa membership. To maneuver around by-law 2.06 prohibiting a subsidiary of Sears from issuing Visa cards, Mountainwest when re-applying for Visa membership in 1990 informed Visa representatives that they were not being acquired by Sears and had no relationship to the retailer. Moving forward under the auspice of holding no relationship to Sears, in their membership application they even went so far as to include the note, “updating existing membership information. Not a new application.” With the membership status updated, the Sears’ owned Mountainwest made a request to Visa to print 1.5 million Visa cards, “Mountainwest Financial v Visa USA Inc” (United States District Court, District of Utah: 1991, n.d.).


1089 It is important to note that Visa did not have a 70% share of the credit card market. Dean Witter suggested that dual membership in Visa and MasterCard gave Visa members or issuers who issued both credit cards a 70% share of the credit card market.


1091 Ibid., 294.
Visa’s lawyers claimed that Sears’ interest in becoming a proprietary member of the platform was to ‘free ride’ on the Visa trademark and absorb trade secrets and expertise to guide the growth of its Discover card operations. Visa was accusing Sears of resorting to subterfuge, gained through seeking “the right to vote as a Visa member, to receive dividends from profits generated by the bona fide members of the joint venture, to review Visa's confidential and proprietary information, and even eligibility to sit on Visa's Board of Directors.”

In defense of their policies, Visa’s lawyers argued that the credit card environment was atomistically competitive meaning that the number of firms is so numerous that barring any form of government regulation perfect competition is possible, and Visa Members did not need to allow entry in their infrastructure to competitors. Visa’s lawyers also argued that due to the atomistic nature of competition in the credit card market, price fixing, increasing, or the general reduction of output amongst its members above competitive levels was not economically possible. Their attorneys claimed that while Visa’s Board of Directors set the interchange fees, they held no power to set prices (i.e. interest rates or merchant discount fees). Visa’s lawyers declared that members, who, they argued, were competing with thousands of other members, set the prices.

Initially, the jury sided with Sears. However, Visa appealed the decision, and the appellate court reversed the jury’s verdict, agreeing with Visa that its by-laws were not anti-competitive. In the summary of their judgment, the appeals court noted that “it is not the rule-making per se that should be the focus of the market power analysis, but the effect of those rules—whether they increase price, decrease output, or otherwise capitalize on barriers to entry that potential rivals cannot overcome.” Since prosecutors gave no evidence proving that the by-laws had an effect on prices or output, the court decided that the by-laws did not violate anti-trust laws. The decision of the appellate court demonstrates the effect that the Chicago School’s anti-trust philosophy, prioritizing outcomes in the form of prices, had on reshaping the legal environment and protecting the survival and growth of the bank credit card infrastructure.

1092 “Mountainwest Financial v Visa USA Inc.”
1094 Ibid., 306.
However, in 1995 after noticing that it was paying the same merchant discount fee as other retailers, Wal-Mart allegedly approached Visa’s CEO, Carl Pascarella, to demand that the payment company stop forcing the retailer to process debit card transactions at credit card prices.\(^{1095}\) According to Wal-Mart, Pascarella stated that Visa would not offer a lower transaction fee. Following these negotiations with Visa, Wal-Mart alleged that they approach MasterCard, offering to migrate their transactions to MasterCard if they acquiesce with their request to not pay credit card prices for debit card transactions. After being turned down by MasterCard, the large retailer joined a lawsuit against Visa claiming that the company’s “honor all cards” policy was anti-competitive.\(^ {1096}\)

The attorneys representing the merchants claimed that the payment corporation’s ownership was comprised of thousands of banks that were conspiring to reduce competition in the credit card market, by fixing the prices of the merchant discount rate, transaction fees, maintaining higher barriers to entry through operation policies, and by enforcing tying arrangements.\(^ {1097}\) In response to these allegations, Visa’s lawyers claimed that the “honor all cards” policy was a fundamental tenet and a cornerstone to the success of Visa because it gave the payment corporation a major competitive advantage. The lawyers claimed that “honor all cards” policy offered a significant entry barrier to protect existing Visa members, and also enabled these members to leverage the Visa brand.\(^ {1098}\) As Khan details, brand leverage and creating barriers to entry have served as key strategies of large platforms to maintain their market control.\(^ {1099}\)

The case lasted seven years, only being settled in 2003 when Visa agreed to pay $2 billion to retailers and to lower fees.\(^ {1100}\) However, by settling the case, Visa paid to maintain a legal environment that protected the duopolistic bank credit card infrastructure. The settlement strategy remains a cornerstone of the payment corporation’s strategy to maintain a duopoly in the payment market. In 2012, Visa reached a $5.7 billion dollar settlement with Wal-Mart, Amazon, Constantine, *Priceless*, 46.

\(^{1095}\) Ibid.

\(^{1096}\) Ibid., 57.

\(^{1097}\) Ibid.

\(^{1098}\) Khan, “Amazon’s Antitrust Paradox,” 2016, 744.

\(^{1099}\) Constantine, *Priceless*, 166.
Target and other major retailers.\footnote{1101}{“Walmart Files Opt-Out Suit Challenging Visa’s Card-Fee Policies,” \textit{PYMNTS.Com} (blog), March 27, 2014, \url{https://www.pymnts.com/in-depth/2014/walmart-files-suit-against-visa-again/}.} As mentioned at the beginning of this chapter, Wal-Mart sued Visa again in 2014 for $5 billion over interchange fees and price fixing, which they alleged occurred between January 2004 and November 2012.\footnote{1102}{Ibid.}

8.4 Conclusion

The bank credit card infrastructure and its duopolistic structure is representative of contemporary platform capitalism. Platform capitalism defined by future oriented business strategies aimed at long-term survival and growth through the operation of essential infrastructures exhibits monopolization tendencies. To facilitate these objectives and gain monopolistic control of markets, platforms are repeatedly found to enact anti-competitive practices, including predatory pricing, barriers to entry, and tying arrangements. This chapter detailed how the payment corporations operating the bank credit card infrastructure implemented these anti-competitive practices to continuously secure, obtain, and maintain a monopolistic control of the payment market.

This chapter claimed that the bankcard associations acted continuously to protect, maintain, and grow the market for their members. For instances, the lawyers representing these associations, to safeguard their organizations from anti-trust accusations, consistently argued in their “Business Review” letter, in the NaBanco case, and the Sears case, that they were operating a new and innovative banking environment. This unique banking environment argument was then supported by the claim that it produced associations and platforms composed of thousands of competitors. With these claims largely accepted in the US legal environment, they helped to establish legal precedent and reconfigure the bank’s external legal environment.

The chapter highlights how the operating regulations and policies of the bank credit card infrastructure both reflect this effort to cultivate a legal environment amenable to the survival of the payment corporations, and also reflect changes to the anti-trust philosophy. To start, it detailed how anti-duality policies were initially put into place by NBI to protect its survival and prevent a possible merger with Interbank. It then outlined how the lifting of the anti-duality
policy by NBI was in response to the DOJ’s response to the company’s “Business Review” letter but also precipitated by a pre-emptive attempt to acquire Interbank members. The removal of the anti-duality resulted in an incredible overlap in the ownership of these payment corporations, and a demand from owners to reduce the competition amongst these firms by coordinating policies and back office operations. As the chapter illustrates, the call from owners to unify operations emerged alongside the rise of the Chicago School anti-trust philosophy and the Reagan administration’s liberalization of anti-trust law through the appointment of a series of conservative judges. These factors combined to create a legal sphere amenable to the monopolization of the payment market by Visa and MasterCard, which was also aided by the anti-competitive policies and practices enacted by the management and executives of these payment corporations.

The chapter concluded by showing how the payment corporations continue to face a litany of anti-trust allegations from large retailers and how these allegations have been resolved through settlement as opposed to judgment. In the case of these payment platforms, settlement represents a technique to maintain the duopolistic control of the market and continued to enact anti-competitive policies and practices, for a fee. In the end, the chapter provides an outline of the recent history of the monopolization efforts of large digital platforms, demonstrating how corporate strategies emphasizing long-term growth and survival are actualized through the implementation of anti-competitive internal operating regulations, the use of lawyers to reconfigure the external legal environment, and settlements to maintain this environment.
Chapter 9

Conclusion

9 Conclusion

The bank credit card infrastructure is a complex amalgamation of social, political, technological, economic, legal, and management spheres. As a result, the dissertation outlines how the bank credit card is more than just a plastic card. It argues that it is an infrastructure composed of cards, machines, communications networks, financial institutions, merchants, and cardholders. However, it also outlined how the growth of this infrastructure rested largely on institutionalized racism and involved an incredible transformation of bank management techniques, financial and legal regulations, and the reorganization of the very business of banking. As a result, the dissertation primarily revealed how the bank credit card infrastructure reflects changes in the history of bank management practices including the development of payment platforms, the creation and adoption of new ways of managing and planning, and explicit efforts to alter the legal, social and economic conditions that banks and payment companies operated in.

To explain the formation of this complex socio-technical infrastructure, Chapters 4 to 8 showed how beginning in the mid-1960s, American commercial bankers utilized an environmentality approach to management. This approach stressed the need to understand and pre-emptively act on elements external to bank control or ownership that exerted a subtle impact on bank operations. The external environment included economic, political, technological, legal, and social spheres, where there were variables or events that did not always directly impinge on daily business operations but strategists and bank officers identified as having a subtle impact on the overall operations of a bank. As Chapter 2 highlighted, before the implementation of this management orientation the bank credit card was largely unprofitable, and many banks that entered the market in the 1950s discontinued their credit card program by the mid-1960s.

Turning to the adoption of an environmentality, by banks, Chapter 3 summarized how a more systems-based approach to understanding the world was attached to postwar Western military and modernization projects. Chapter 3 highlighted how systems-based research, produced by social scientists working on postwar military and modernization projects, informed the postwar conceptualization of ‘infrastructure.’ The history of this postwar framing of infrastructure reveals
the ways ‘infrastructure’ was as much about finance and planning, as it was the construction of concrete installations. Infrastructure encompassed budgeting, coordinating, forecasting long-range planning, and social values and was inextricably linked to security and finance. The primary objectives of infrastructure, security and economic growth, demonstrate that the discursive introduction of ‘infrastructure’ was reflective of this postwar environmentality that presented the world as not only complex and inter-connected but also crisis-ridden.

The fourth chapter details how these development and military techniques found their way into bank management in the 1960s. The chapter highlighted how planning techniques and methods, including bank models and linear regression, convinced many banks to enter or re-enter the bank credit card market in the mid-1960s. It also exhibited how these techniques that fuelled the surge in bank credit card programs led bank credit card departments to target low-income consumers, as bank managers increasingly felt confident that their department could manage high-risk cardholders thanks to statistical planning and modeling techniques.

While banks were entering in the bank credit card market en masse in the mid-1960s, the fifth chapter pointed to how these banks formed bank credit card associations. Visa and MasterCard were just two of the twenty bankcard associations to emerge in the mid to late 1960s. These associations – in their formation, organization, and philosophies – are exemplary of the environmentality of the postwar period and reflected the type of infrastructural arrangement of NATO’s ‘Common Infrastructure Program.’ These associations emerged at a time when over ninety percent of circulating currency was in the form of ‘bytes’ as opposed to coins, and banks began to invest heavily in the research and construction of electronic fund transfer (EFT) systems. Members of the bankcard associations, especially members of NBI (Visa) and Interbank (MasterCard), gave the executives of these associations the task of building the payment infrastructure to facilitate electronic fund transfer. As the chapter illustrated, corresponding to the investment and construction of these joint-venture systems was a debate over ownership and control of automated clearinghouses. The large banks and NBI and Interbank sought to produce a private and separate payment system, offering neoliberal translations of the economy to support their position.

The sixth chapter outlined that the translations of the economy offered by the bankcard associations during the ownership debates of the payment system, which reflected a larger trend
towards advancing a ‘deregulation’ agenda. The chapter details how as banks entered the credit card market en masse in the mid to late 1960s, many of these same banks increased their lobbying efforts at both the federal and state level. It traced the development of the financial ‘deregulation’ agenda through the Hunt Commission, which revealed how a heterogeneous group of bank lobbyists helped guide, write, push, and pass deregulatory measures. The chapter traced how the translations of the economy, inspired by the Chicago School of economics, and codified in the Hunt Commission report helped to produce the banking environment that transformed the largely unprofitable bank credit card into a trillion dollar payment infrastructure.

The seventh chapter investigated the relationship between race, sex, and the development of the bank credit card infrastructure. Specifically, it highlighted how the bank credit card infrastructure emerged at a time where protesters and activists were demanding access to credit cards and an end to lending discrimination. The chapter reveals how an environmentality approach led banks, such as Bank of America, to understand how their future profits were tied to developing social and economic environments that quelled anti-racist and student protests. As a result, the bankcard associations, led by large banks such as Bank of America, lobbied for the introduction of legislation that would ban overt forms of discrimination in credit scoring procedures. The enactment of this legislation led many smaller banks and retailers out of the bank credit card market and allowed large commercial banks and the bankcard associations to gain a greater share of the credit card market. The legislation also did very little to combat institutionalized and systemic racism in the lending market. The chapter detailed how evidence and data reveals that far from eliminating lending discrimination, measures passed since the 1960s have in many ways further entrenched institutionalized lending discrimination in the credit card market. The chapter also illustrated how bank credit card issuers derive a large proportion of their profits from targeting the non-white male populations, demonstrating the link between race, sex, and the growth of the bank credit card infrastructure.

The final chapter detailed how this new banking environment, which was increasingly deregulated and contained two dominant bankcard associations, produced a duopolistic credit card market. It highlighted how Visa and MasterCard implemented anti-competitive practices, including predatory pricing, barriers to entry, and tying arrangements to increase and maintain their share of the credit card market. As the chapter outlined, much like the arguments presented by the bankcard association executives and bank lobbyists, the call from association members to
unify operations emerged alongside the rise of the Chicago School anti-trust philosophy and the Reagan administration’s liberalization of anti-trust law through the appointment of a series of conservative judges. The final chapter provided a longer history of the monopolization efforts of large digital platforms, demonstrating how corporate strategies emphasizing long-term growth and survival are actualized through the implementation of anti-competitive internal operating regulations, the use of lawyers to reconfigure the external legal environment, and settlements to maintain this environment.

As mentioned throughout the dissertation, Visa’s ‘cyber-infrastructure’ currently authorizes transactions in over 175 different currencies, over millions of miles of fiber-optic cables that connect Visa’s 1,600 network locations. Visa and MasterCard combine to control 80% of the credit card market. Ten credit card issuers, most of whom are large banks, dominate this credit card market. This dissertation has examined not only how the bank credit card infrastructure developed but also how this infrastructure became duopolistic with consumer credit card debt largely concentrated in the largest American commercial banks. For these banks, the credit card represents their most profitable financial service. The profits from the cards are primarily derived from the 40% of households in the United States that depend on debt to survive. The dissertation, by piecing together the complex amalgamation of spheres that comprise the bank credit card infrastructure, has contributed to our understanding of how this contemporary financial environment came into existence. It shows how credit cards are more than just a plastic card in our wallets used for hotel reservations and car rentals but rather a complex ‘infrastructure’ that has worked to further entrench institutionalized racial and sexual discrimination and financial precarity, while also simultaneously increasing the concentration of liabilities and profits in the largest commercial banks.

The dissertation suggests that to understand what Lazzarato refers to as the ‘debt economy’ requires an historical investigation into how it became possible for banks to manufacture debt. The investigation reveals that central to the manufacturing of debt were a series of techniques and rationalities adopted by American bank executives and managers in the 1960s. These techniques, which the dissertation argues reflects an environmentality, were inspired by the operations research and systems analysis methods that connected security, economy and infrastructure highlighted by researchers such as Lakoff, Collier, Thomas, Heyck-Crowley, de Goede, and Langley. As Chapter 4 outlined, these military-inspired techniques and rationalities
instigated the adoption of the credit scoring techniques highlighted by researchers such as Poon, Marron, and Kear and helped these managers and executives gain confidence in their ability to manage uncertainty. These techniques and rationalities that formed this environmentality deployed by American commercial bank officials also influenced the targeting of the financially vulnerable populations, whose exploitation as Kear, Lazzarato, Graeber, Mann, and Freeman point out are central to contemporary financial capitalism or neoliberalism.

However, the dissertation also suggests that these techniques and logics not only instigated the targeting and mass distribution of debt to these precarious populations but also inspired the historic alliance of commercial banks that joint-financed the construction of Visa and MasterCard’s clearance, processing, and payment authorization systems. The construction of these systems, as Stearns illustrates, enabled the creation of truly nationwide and eventually international payment systems. They also, as highlighted in Chapter 5, helped to transform the largest banks in the United States into debt wholesalers and enabled these banks to not only increase the distribution of debt but also provided the critical foundation for them to manufacture debt at a large scale. The other critical piece towards the manufacturing of bank credit card debt, which fostered the distribution of this debt to precarious populations and concentrates the debt largely in the hands of the biggest American commercial banks, was the efforts of payment corporation executives and bank officers to pre-emptively act to transform the US financial and legal system. Chapter 6 and 8 point to the efforts by these officers and executives to validate an understanding of the US financial and legal systems that favored deregulation and lenient anti-trust legislation. As finance and law researchers have pointed out, this transformation of the US financial and legal system facilitated the monopolization of markets by large firms, including Visa and MasterCard monopolization of the payment market, and helped the largest commercial banks in America gain a greater share of the financial market.

Put together, the dissertation, using the bank credit card as a case study, contributes to this excellent existing work on the contemporary ‘debt economy’ by focusing on how the postwar military techniques and rationalities found their way into American bank management practices, essentially ‘un-black boxing’ these corporates techniques and practices. In doing so, it has suggested that within the debtor-creditor relationship is this collection of techniques and rationalities, which Foucault referred to as an environmentality. It also indicates that these techniques and rationalities were instrumental in the development of contemporary payment
infrastructures. Finally, the dissertation may also provide useful to those seeking to understand the management strategies guiding the operations of modern payment systems and platforms.

Over the course of writing the dissertation it became evident that the history of the bank credit card infrastructure is also important to understanding other platforms. In particular, many of the same management strategies and business models that guided the formation, development, and growth of the bank credit card infrastructure are present in contemporary large digital platforms. The following section details how large digital platforms share many of the same attributes of the bank credit card, and examines different areas that further research on this topic may go, including how the history of the bank credit card infrastructure can help us understand the ongoing ‘payment war.’

9.1 Platform Capitalism

Today, platforms are essential to economic and cultural life. Platforms represent not only digital infrastructural configurations but also corporate attempts to cultivate both internal and external environments that will help sustain their firm’s growth and long-term survival. As this section details, these environments, much like the bank credit card infrastructure, are composed of core values, governance policies, lobbying efforts, and business models.

Communication professor Tarleton Gillespie claims that the contemporary definition of platform depends on four core categories: open, neutral, egalitarian and progressive support for activity. Gillespie argues that these categories are part of the attempt by large platforms to “establish the very criteria by which these technologies will be judged” and represent an effort by these large corporations to “establish a long-term position in a fluctuating economic and cultural terrain.” This represents a similar strategy used by NBI and Interbank, described in

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1104 Gillespie, “The Politics of ‘Platforms,’” 49; Srnicek, Platform Capitalism, 43; McAfee and Brynjolfsson, Machine, Platform, Crowd, 2. 352.

Chapter 5, during the electronic fund transfer debate. In that debate, the bankcard executives framed their platforms as cooperative and competitive to establish the long-term position in the payment market during a period, as detailed in Chapter 6, of intense economic, political, social, legal, and technological fluctuations. The efforts of contemporary platform corporations to sustain this long-term position are also exemplified, much like the commercial banks, by the increased lobbying efforts and expenditures in recent years to secure a favorable political and regulatory environment.\textsuperscript{1106}

Aiding these attempts to concretize their long-term position in society is the incredible growth of platforms since the 2007 financial and economic crisis. For instance, in 2007 Amazon was valued at $17.5 billion, much less than the $400 billion valuation of the brick-and-mortar retail industry.\textsuperscript{1107} At the start of 2017, Amazon’s value had risen to $356 billion, making it one of the largest companies in the world and bigger than most of the brick-and-mortar retailers combined.\textsuperscript{1108} However, it’s not just Amazon that has grown so much. In 2016, the top five publicly traded companies by market cap were platforms and tech companies such as Apple, Alphabet, Microsoft, Amazon, and Facebook. Google makes $24,000 in profit every 60 seconds and has enough cash in reserve to buy Goldman Sachs - Apple has enough reserve cash to buy Pfizer or Shell.\textsuperscript{1109} Much like the bank credit card infrastructure, these platforms experienced massive growth in a period of intense financial uncertainty and incredible economic fluctuations.

Political economist Nick Srnicek claims that the establishment of a low-interest rate environment in the wake of the 2007-2008 financial crisis helps explain the immense growth of platforms since 2007.\textsuperscript{1110} The low-interest rate environment worked to reduce the rate of return on financial investments, and as Srnicek points out, led venture capitalists to seek out risky assets, such as


\textsuperscript{1108} Ibid.


digital platforms, that offered the potential for higher yields in the future through the growth oriented business models and philosophies outlined throughout the dissertation. The atmosphere of confidence produced by crisis governance techniques such as quantitative easing, bailouts, and artificially low-interest rates helped to redirect investments into riskier assets, and facilitated the growth of platform capitalism.

Environmentality and its new normality of ‘crises’ is important when discussing financial infrastructure and banking in the United States. Geographer Paul Langley claims that fields such as the social study of finance often ignore the role of governance in times of crises. According to Langley, crisis governance sought to incite and sustain an atmosphere of confidence in investors and reanimate financial investment. As Langley points out, the governance of the 2007-2008 financial crisis set out to produce a series of interventions “to refurbish the financialized security of a particular and valued form of Anglo-American, neoliberal life.” In that sense, crisis governance is about more than the production of value but rather is also about securing a type of convergent order. Langley argues that crisis governance stands at the “interstices of finance/security,” where what was to be secured was a neoliberal form of life that produced profitable investment opportunities for the investor class and increased indebtedness for everyone else. As described in Chapter 6, we can see the prioritization of the interests of the investor class in the mid-1970s as one of the key factor behind the unyielding drive to pass the deregulatory measures that would help instigate the massive growth of the bank credit card infrastructure.

As a result of the incredible growth of platform companies, Paul Langley and Andrew Leyshon coined the neologism of ‘platform capitalism.’ Platform capitalism represents the attempt by these researchers to introduce a neologism that holds together the “infrastructural and

1111 Ibid., 85.
1112 Ibid., 28–30; Langley, Liquidity Lost, 6.
1113 Langley, Liquidity Lost.
1114 Ibid., 10.
1115 Ibid., 178.
1116 Ibid., 179.
intermediary qualities of the platform.” According to Langley and Leyshon, the contemporary definition of platforms represents the coming together of code and commerce where “infrastructures of participation and connectivity are designed and data is realized and acted upon, this is the intermediation of digital economic circulation in action.” In the case of platforms, digital economic circulation refers to the unique business models of these platforms.

Similar to Visa and MasterCard, other large-scale platforms often do not generate surplus value from production or exchange. Instead, platforms operate through “future-facing processes of valuation and capitalization” that help sustain their growth. Venture capital investments highlight the novelty of platform enterprises that “leverage debt against future revenue prospects from digital economic circulation.” Funded by venture capital, platforms such as Amazon and Airbnb emphasize growth over greater profit margins and the immediate maximization of profits.

In January 2018, Airbnb Founder and CEO Brian Chesky issued a statement to the ‘Airbnb Community’ declaring his intentions to make his corporation into an ‘indefinite company.’ Chesky stated, “I know that a lot of companies are thinking about being long-term oriented, but an alternative way of thinking about it is being infinite.” At Amazon, Jeff Bezos has been publicly stressing the importance of long-term thinking since 1997 when Amazon went public. Bezos stated that Amazon’s long-term thinking emphasized striking a balance between growth and long-term profitability, but that the company prioritized growth “because we believe that scale is central to achieving the potential of our business model.” Bezos claimed that he was

1118 Ibid., 9.
1119 Ibid., 4.
1120 Ibid., 3.
1121 Srnicek, Platform Capitalism, 119.
optimistic about Amazon’s future but stressed that management at the company needed to “remain vigilant and maintain a sense of urgency.”

The long-term survival of Amazon faced many threats, according to Bezos, including “aggressive, capable, well-funded competition, considerable growth challenges and execution risk; the risks of product and geographic expansion; and the need for large continuing investments to meet an expanding market opportunity.” Amazon’s survival was not guaranteed by the immediate maximization of company profits. Instead, the company’s survival depended upon implementing a corporate strategy that both sought to secure the company’s future and increase the company’s long-term profitability through aggressive expansion. Chesky and Bezos’ vision reflects the future and growth-oriented business models of platform capitalism. These business models, operating largely on venture capital investments, stress the importance of long-term growth and survival over immediate profit maximization.

In fact, Amazon’s only profitable operation is Amazon Web Service (AWS), its cloud computing service. Amazon’s prioritizing of growth reflects the uniqueness of platform intermediaries, a quality that can be found in the history of the development of the bank credit card infrastructure. Like the payment companies, these intermediaries attempt to both facilitate connections in a multi-sided market and act to produce ‘network effects.’ Platform network effects refer to the correlation between the value of the platform and the number of people who use it, and the attempt to enclose an ever-increasing number of users in the platform’s ‘ecosystem.’ With a business model that stresses the importance of growth and market share, these large digital platforms, like the bank credit card infrastructure, tend towards the monopolization of markets.

As this dissertation illustrated, in the case of the payment platforms, investment came from competing commercial banks that jointly financed the construction of a payment platform that

1124 Ibid.
1125 Ibid.
1126 Srnicek, Platform Capitalism; Paul Langley and Andrew Leyshon, “Platform Capitalism: The Intermediation and Capitalization of Digital Economic Circulation.”
would serve as an intermediary and increase the network effects of the bank credit card. These bank credit card associations were successful in their attempt to produce network effects and enabled the payment platforms to gain a monopoly on the payment market. However, the credit card platforms, like other platforms, often require a business model not solely reliant on venture capital to sustain their operations.

As platform studies researchers explain, the business models of large digital platforms rely on the sale of data that amounts “to the extraction of ‘rent’ from circulations and associated data trails.” Rents are distinct from profit and taxation, as opposed to producing surplus value through exchange or production, surplus value is produced from property and enclosures, or from the ownership of an ‘infrastructure.’ Given the large market share of platforms, rents are often in the form of monopoly rents, which are non-negotiable, fixed, and necessary to pay to gain access to a ubiquitous system. In the case of the credit card, payment corporations charge monopoly rents for access to an infrastructure that both consumers and merchants rely on for survival. Given that both the payment companies and large digital platforms share similar business models and strategies, it should come as no surprise that they are increasingly competing in the same markets.

The World Economic Forum found that commercial banks and payment corporations viewed new financial technologies and crypto-currencies as less of a threat than large digital platforms such as Amazon, Google, and Apple. To date, financial technology companies have had difficulties convincing customers to switch to alternative payment systems and currencies, and erecting new infrastructures and establishing “new financial services ecosystems.” Instead, these companies were found to be building partnerships with large platform services. According to Martin Moeller, the Director of Digital Transformation for Banking and Finance at Microsoft, claims “A recent survey among senior bankers found that the majority now realize that Google,

\[\text{\footnotesize \begin{align*}
1128 \text{ Paul Langley and Andrew Leyshon, \textit{Platform Capitalism: The Intermediation and Capitalization of Digital Economic Circulation.}} \\
1129 \text{ Ibid., 15.} \\
1130 \text{ Jesse McWaters and Rob Galaski, \textit{Beyond Fintech: A Pragmatic Assessment Of Disruptive Potential In Financial Services Part of the Future of Financial Services Series}} \text{ (World Economic Forum & Deloitte, August 2017).} \\
1131 \text{ Ibid.}
\end{align*}\]
Amazon, Facebook, and Apple are indeed the new big banking challengers.”¹¹³² For example, in April 2017, Amazon launched ‘Amazon Cash.’ The service allows consumers to deposit funds directly into their Amazon account online or at any one of the 10,000 retail locations taking part in the service.¹¹³³ ‘Amazon Cash’ allows depositors to bypass not only the banks but also credit card companies, and promotes itself as “the fast, no fee way to use cash to shop on Amazon.”¹¹³⁴

Elsewhere, Google recently released a new version of ‘Google Finance,’ Apple has promoted its Apple Pay as a core feature of its new iPhones, and Facebook has aggressively adopted the notion of ‘platform business.’¹¹³⁵ As Moeller explains, Facebook has sought to partner with financial technology firms ‘in a true ecosystem approach’ to offer peer-to-peer payment services to its 1.4 billion active daily users.¹¹³⁶ In December 2016, Facebook acquired a license to offer e-money transfer services in Europe and in October 2017 announced a partnership with PayPal.¹¹³⁷ According to the World Economic Forum, “Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services.”¹¹³⁸ The move by large technology companies and their platform business models to encroach on the financial service industry is another indication of the ongoing trend towards ‘platform capitalism’ and the further concentration of market power in an increasingly smaller number of incredibly large corporations.

The focus on the business model’s tendency towards monopolization and the economic impact of large digital platforms has led some researchers to stress the need to study ‘the making of

¹¹³² Martin Moeller, “Ready or Not, the New Banks Are Here” (Microsoft, January 5, 2018), https://www.linkedin.com/pulse/ready-new-banks-here-martin-moeller/?trackingId=QsEUIs6oM%2BAIOJGnuKVAVA%3D%3D.


¹¹³⁴ Ibid.

¹¹³⁵ Martin Moeller, “Ready or Not, the New Banks Are Here.”

¹¹³⁶ Ibid.

¹¹³⁷ Ibid.

platforms.” The importance of studying the making of platforms is underscored by the claims of scholars such as legal scholar Frank Pasquale who argue that platforms are changing the very notions of sovereignty. Pasquale claims that platforms are increasingly acting as market makers, and not just market participants. As market makers, these large platforms can “exert regulatory control over the terms on which others can sell goods and services.” Pasquale warns that these platforms aspire to be more than just self-regulating market makers. Pasquale claims that platform corporations,

...aspire to displace more government roles of over time, replacing the logic of territorial sovereignty with functional sovereignty. In functional arenas from room-letting to transportation to commerce, persons will be increasingly subject to corporate, rather than democratic, control.

Law professor Rory Van Loo has already outlined how “the corporation is the closest thing to a courthouse that most consumers will encounter.” Van Loo validates this claim by pointing to the increasing use by consumers of a platform’s conflict resolution services as opposed to resolving conflicts in a courthouse. It is an expansion of environmentality into domains and spheres previously predominantly governed by nation-states. One sphere drawing considerable attention is payment and money.

9.2 Bitcoin, Crypto-Currencies and the Payment War

Crypto-currencies drew a lot of attention from the popular press in 2017. Bitcoin-mania hit a fevered pitch in 2017, as the price of the crypto-currency rose by more than 1300%. Over the


1141 Ibid.


1143 Ibid., 549.


Bitcoin’s mysterious founder, Satoshi Nakamoto, outlined their crypto-currency creation in 2008 when they published, “Bitcoin: A Peer-to-Peer Electronic Cash System.” In the piece, Nakamoto proposed and detailed the framework for a “system for electronic transactions without relying on trust.”\footnote{Satoshi Nakamoto, “Bitcoin: A Peer-to-Peer Electronic Cash System,” 2008, 8, https://bitcoin.org/bitcoin.pdf.} Trust in this instance referred to the use of intermediaries such as payment companies...
or central banks. Bitcoin’s founder sought to create an e-commerce system that did not rely on these financial institutions and ‘trusted’ third party payment corporations.

As Nakamoto explained, the flaws in the trusted third party system are high transaction costs and practical limits placed on both merchant and consumers regarding transaction size.\(^{1148}\) Nakamoto also outlined that the offer of existing payment services to reverse payments and services leads to a higher need for trust. Nakamoto claimed, “With the possibility of reversal, the need for trust spreads… A certain percentage of fraud is accepted as unavoidable.”\(^{1149}\) According to Nakamoto, physical currency obviates the payment uncertainties and costs, but “no mechanism exists to make payments over a communications channel without a trusted party.”\(^{1150}\) In their article, Nakamoto proposed ‘bitcoin,’ an “electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party.”\(^{1151}\) Hence, the name ‘crypto’-currency given to digital currency like bitcoin.

Crypto-currencies such as bitcoin represent more than just a financial innovation. Crypto-currencies are indicative of platform capitalism and a challenge to one of the first platform business models, the bank credit card. It is this high cost system that Nakamoto targeted with the invention of bitcoin. In contrast to the credit card infrastructure, bitcoin, at the most basic level, is a peer-to-peer network of unique digital signatures called ‘coins.’ As Political Theorist Ole Bjerg explains,

Each bitcoin consists of a unique chain of digital signatures that is stored in a digital wallet installed on the user’s computer. The wallet generates keys used for sending and receiving coins. A transfer of bitcoins is made as the current owner of the coin uses a private digital key to approve of the addition of the recipient’s key to a string of previous transactions. The coin is then transferred and now appears in the recipient’s wallet with a recorded history of transactions, including the one just recently completed.\(^{1152}\)


\(^{1150}\) Ibid.

\(^{1151}\) Ibid.

The peer-to-peer transaction process, despite its language of digital keys and signatures, is straightforward: peers transact directly with other peers with no need for an intermediary. The complex problem facing the bitcoin developers was how to prevent ‘double-spending’ without a central mediating body, such as a credit card company or central bank. As Nakamoto outlined, the initial problem facing Bitcoin’s founders was that a “payee can't verify that one of the owners did not double-spend the coin. A common solution is to introduce a trusted central authority, or mint, that checks every transaction for double spending.” Their solution to the problem was to introduce the ‘blockchain’ or a ‘timestamp server.’

Any time a bitcoin transaction occurred, the transfer was time stamped and bundled together into a block of transactions that joined a chain of previous transactions in a public ledger. The next problem was how to convince people to bundle transactions into blocks on the chain. The creators, to create an incentive for people to process and verify a transaction - closing off a block - decided that a new coin would be created after the closing of a new block. They referred to this process as mining. Miners provided CPU power to ensure the proper functioning of the peer-to-peer network and the maintenance of the blockchain, and in return for every block they closed they receive a bitcoin. To control the flow of bitcoin, Nakamoto set a limit of 21 million bitcoins to be released by the year 2140. To ensure that these 21 million bitcoins are not released into the network before the deadline, the creators decided that to close a block, miners had to solve cryptographic mathematical equations that increased in difficulty after every closed block.

According to Bjerg, bitcoin and other crypto-currencies are challenging the apparent ‘naturalness’ of existing payment and monetary systems dominated by nation-states and commercial banks. For instance, in the case of the credit card transaction, the act of transferring money is not the physical movement of fiat money, or hard currency, from one account to another, but rather credit-money. Fiat money refers to currency that gains its

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1155 Ibid.
acceptance because it is printed by governments and demanded by those governments to pay taxes.\textsuperscript{1156} It is this type of money that can be withdrawn from your bank account at an ATM.

Bitcoin challenges the naturalness of fiat money and the widespread acceptance that governments should hold a monopoly on printing money and demanding that people pay taxes with the money printed by the state. It also challenges the credit-money system and the apparent naturalness of the ability of commercial banks to circumvent the fiat money monopoly held by states by lending more electronic money than they hold in reserve fiat money. Crypto-currencies such as bitcoin, as framed by their supporters, offer an alternative to existing monetary and payment systems, circumventing the state and financial intermediaries that monopolize credit and fiat money.

Notable bank executives, central bankers, institutional investors, and economists framed crypto-currencies as highly-speculative assets and the rise in bitcoin’s price as a ‘bubble.’ JP Morgan Chase CEO Jamie Dimon even went so far as to call investors in bitcoin stupid, and the crypto-currency a fraud.\textsuperscript{1157} Renowned economist Joseph Stiglitz argued that crypto-currencies “ought to be outlawed” because of their “potential for circumvention.”\textsuperscript{1158} Alternatively, bitcoin investors and supporters such as Peter Thiel and the Winklevoss twins heralded crypto-currencies as multi-trillion dollar assets and the cyber equivalent of gold.\textsuperscript{1159} By 2017, the “payment wars” hit a fevered pitch.

The “payment wars” have unsettled the landscape of money and payment, calling into question existing monetary and payment systems. However, what these systems share in common is an understanding of their surrounds as an ‘ecology.’ Payment operators often refer to the payment platform as an ‘ecology,’ referencing the interplay of independent and heterogeneous actors

\textsuperscript{1157} Adam Samson, “Jamie Dimon: ‘I Regret’ Calling Bitcoin a Fraud,” Financial Times, January 9, 2018, https://www.ft.com/content/e04e359a-e9e9-3f8e-8e2f-3f4373e5efb0.
\textsuperscript{1159} Ibid.
within the environment created by corporations. As the dissertation revealed, the application of this type of understanding of the ‘environment’ dates back to the postwar period and reflects the emergence of an ‘environmentality.’ The discourse of ‘environment’ permeated throughout and helped to organize postwar business practices and continues to inform corporate strategies today.

The task of future research is to continue to investigate how an ‘environmentality’ has influenced the formation of a contemporary platform capitalism and the payment wars. In particular, further work needs to be done to increase our understanding of how an approach that did not stress immediate profit maximization came to produce such widespread financial precarity and inequality. There also needs to be more research on the topic of management techniques developed to help executives and managers both understand their surrounds and also preemptively act to alter the economic, political, social, technological, and legal spheres that companies do not own or control but exert an influence on their firm’s operations. As this dissertation has demonstrated, an environmentality approach to running a corporation does not fit with the traditional models of industrial capitalism, or even some of the basic tenets of Milton Friedman’s neoliberalism, where owners and executives are expected to work to immediately maximize their firm’s profits.

Rather, as exemplified with the development and growth of the bank credit card infrastructure, environmentality suggests a more complex understanding of contemporary corporate and platform capitalism. This understanding stresses the need to develop an awareness of how corporations, such as banks, came to see and understand their surrounding environment and how this perspective aligns with a desire to run ‘infinite companies.’ The desire to operate ‘infinite companies’ is a reflection of the same security and economic growth objectives set by the US military in the immediate postwar period. Environmentality, whether deployed by the military, foreign development officers or corporations, has achieved the incredible objective of enrolling nation-states and people across the globe into the belief that their very survival is dependent on

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economic growth attached to corporations being able to produce profits. This achievement is even more incredible when examined alongside the overwhelming evidence that since the emergence of environmentality the long-term survival of human and non-human species has only continued to grow more and more precarious. Environmentality in many ways represents the soul of the corporation and echoing Gilles Deleuze, that is “the most terrifying news in the world.”
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