The Skyrocketing Boom in Credit Card Buying

by Dave Jones

As the U.S. Dollar buys less and less, the business of the credit card promoters gets better and better. What happens if and when we go into an acknowledged financial crisis with not only a peak overload in installment buying but the added millions of pay-later restaurant eating and hotel living coming due—and, perhaps, not collectible?

CREDIT CARDS—those versatile vest pocket charge accounts—are helping countless Americans skip all over the world with a minimum of cash.

Spurred by the phenomenal growth of on-the-cuff living and tax-deductible expense account spending—the use of credit cards has been increasing for a number of years. The recent addition of "universal" cards, which permit their holders to charge a variety of goods and services almost anywhere in the United States and abroad, has added fresh impetus to the habit.

A new ruling by the Internal Revenue Service promises to boost the practice even higher in the months ahead. The new federal tax ruling provides that taxpayers, who use business expense accounts but who don't have to report to their employers how the money was spent, must itemize those expenses on their 1958 income tax returns. Because credit cards supply receipts that can simplify this task, thousands of business people now are clamoring for them.

"We had the biggest 90 days in the history of the Diners' Club after the Treasury ruling came out," notes an executive of that credit card club. The club enrolled 60,000 new members during those three months, compared to 45,000 in a similar period before the tax ruling.

Sheraton Corporation of America recently launched a new credit card plan designed to help companies meet the new tax requirement. The hotel chain now issues the cards to corporations who, in turn, parcel them out to their traveling employees. Sheraton then consolidates the bills and submits them to the companies on a monthly basis. Forty-five firms, including such names as Philip Morris and Chrysler Corporation, signed up for the Sheraton service during its first three weeks of operation.

Credit card clubs are promoting their services as a way for individuals and companies to cut down complex tax figuring. Esquire Club formed in 1956 and now claiming nearly 80,000 members, circulates a leaflet with an ominous reproduction of income tax form 1040 intruding across a top corner. The leaflet relates the sad tale of a firm that claimed $4,500 in deductible business entertainment expenses but was allowed by the government to deduct only $500—because its receipts did not support the claim.

"This can't happen to you!" promises Esquire's bright yellow leaflet, "because your Esquire Club monthly statement itemizes your entertainment and all other expenses in detail—just the way the tax people want the information—providing the proof you need for deductible expenses!"

Credit cards are designed, of course, to boost business by providing customers with identification enabling them to charge purchases painlessly at a number of outlets. Generally, a single bill is rendered each month for all goods and services charged. Some cards, such as those issued by the major oil companies, are handed out free as a customer service.

Some organizations, however, are in the credit card business to make a credit-card profit; these firms usually charge a fee for their card. Diners' Club, for instance, charges its cardholders $5 a year for membership. It then taps its participating restaurants and other businesses seven percent of all charges made on the club's cards. Diners' Club, in return, accepts all credit losses.

THE BOOM of credit card popularity parallels the American propensity to live on-the-cuff—a tendency that *pushed total consumer credit in the United States to $44.8 billion by the end of 1957* or $2.7 billion above 1956.

Another aid to the credit card industry has been expense account spending, which the government estimates to be running about $5 billion or more a year. Many companies tend to be generous about expense accounts because the 52 percent *corporate* tax on their net income means, in effect, that these "expense" dollars cost the firm actually only 48 cents each. Some concerns parcel out credit cards freely to employees with big expense accounts so they won't have to carry cash. Less generous firms say itemized credit card receipts help to limit expense account padding. Whatever the reasons, corporations traditionally have flocked to the credit card counter. Olin Mathieson Chemical Corporation, for instance, holds 1,500 airline travel cards. Giant Radio Corporation of America has so many cards it won't disclose the number for fear the director will cut back on their use.

Aside from this, the charging chits have some special appeals of their own, according to "studies on the psychology of credit buying" conducted by the Institute for Motivational Research, Croton, N. Y. "They are *magic,*" the Institute says. "They are as good as money and can be used when one temporarily has no money." In a nation where the inability to put up cash no longer is a stigma, these magic tickets "indicate the consumer belongs to a restricted and therefore selective group of individuals," the Institute reports. In fact, a 1956 study, sponsored by Du Pont, shows only about 16 percent of people questioned opposed credit cards, and that was mainly because they believed all "credit buying was bad."

Organizations like the Esquire Club("dedicated to people of fine taste" and "for men who enjoy and can afford the better things of life") hit hard on the *prestige* theme. "We try to keep a certain amount of snob appeal in there," admits a club executive.

The hypo being given credit cards by the new federal tax ruling follows on the heels of the introduction of the universal cards that have done wondrous things for the pay-later fans. Nowadays, for example, members of the Esquire Club can munch Barricini candy in Brooklyn or drink grog from the Shamrock Liquor Store, Belleflower, California. The Avis Rent-a-Car System offers magic ticket service in 1,100 spots ranging from Coolangatta, Australia, to Nome, Alaska. Beneficial Finance Company will come up with credit card *loans* of cash in such towns as Laconia, New Hampshire, and Pocatello, Idaho.

MEMBERS of the far-flung Diners' Club are hanging their hats in such exotic outposts as the Hotel Cecil in Bulawayo, Southern Rhodesia; the Equator Inn, Nairobi, Kenya; the S.Y. Ma Shop, Hong Kong, and Aunt Fanny's Cabin, Smyrna, Georgia. Magic ticket enthusiasts also will find listed in their billfold-sized Diners' directory many hotels, motels, Hertz car rental outlets, flower shops, beauty parlors, and Manpower, Inc.,—a Milwaukee-based supplier of temporary office help. In fact, the man with the right tickets now can get just about anything he needs, anywhere this side of the Iron Curtain.

To get an idea of what's happened in this pay-later business, take a closer look at Diners' Club. The company was formed in 1950 with 5,000 members, 12 Manhattan restaurants, and the fond dream of one day branching out into each of New York City's five boroughs. Now, club officials report, some 550,000 members use the services of over 13,000 outlets in 76 countries, and about 19,000 new members are pouring in every month.

Spots like the plush Sands Hotel in Las Vegas often rake in $60,000 a month in Diners' Club charges, officials say. Last August, two restaurants at Long Island's Roosevelt Raceway totted up $100,000 in club charges. Metro-Goldwyn-Mayer once charged a $25,000 Hollywood party. All this has helped push business done on the club's cards to about $95 million annually from $10.7 million just five years ago.

The major oil companies, which first introduced their credit cards in the 1920's, are clearly the credit-card champs. Millions of motorists carry their gasoline tickets, and the Texas Company alone has over 1.7 million cardholders compared with 1.3 million in 1955. American Telephone & Telegraph's Bell System claims 1.5 million holders—double the 1954 total—and reports that business done on the chits has tripled to $60 million in just three years. The Avis System estimates it now has over 500,000 cardholders compared with a mere 20,000 about three years ago. And Rail Travel Credit Agency, which issues industry-wide cards honored by 57 member railroads, has some 250,000 cards outstanding, double the 1954 total.

HOWEVER, the cash registers of firms that issue credit cards sometimes jangle off key. Many companies that sponsor the magic tickets are finding themselves saddled with mounting costs and other irritations.

"The trouble with credit cards is, they're open credit," complains one major oil company executive. "There's no limit to what a customer can buy. At $10 a day he can run up a terrific bill before you can do anything about it."

"What you gain in so-called profit, you may lose because you've offended cardholders in trying to make prompt collections," says an American Automobile Association official, relieved to find, after a 1956 survey, that AAA members didn't want a credit card system of their own.

The idea that credit cards build brand loyalty "is imaginary" says an oil company executive. When applying for a credit card, he notes, people often write: "I have credit cards with Shell and Texaco and I'd like one from you, too."

The 1956 Du Pont survey showed that about one-third of motorists holding credit cards had more than one.

"We never have gone after the business particularly," admits an Esso Standard Oil Company credit man. "There's no profit in it; it's a dead loss." Another oil man says: "Every gallon we sell on a credit card costs us money." Sun Oil Company, for instance, figures it costs about one cent per gallon of gasoline charged to run the credit card operation. Another major oil company estimates the cost at 12 cents per credit transaction, which would come to a hefty $12 million on the 100 million credit slips that firm wrote in 1957.

In the face of these complaints, why do firms continue to offer credit cards? Mainly, they say, because even the most jaded company realizes a growing number of Americans want to say "charge it." "Our industry will always have credit cards," adds an oil company credit man. "One company won't cut it off unless the others do."

"The credit system ties up a lot of cash, but it's one of the things we have to do to meet competition," John A. Jeffries, vice president of Isbell's restaurants in Chicago, explains.

MANY card-issuing firms are casting about for new ways to cut credit corners. Several oil concerns are considering charging their dealers a five percent fee on all credit-card sales. Others are trimming down the time spent to check credit ratings; at least one major oil company has dropped "stop orders," claiming it's cheaper to take the losses than circularize thousands of gas stations; in 1956, Western Union sent the bulk of $200 million in charged wires without checking a single reference.

There's also a trend toward long-term cards. The magic tickets traditionally have been issued for one year—sometimes less—to cut down on bad credit risks. But Gulf Oil Corporation for years has used a permanent card because it's cheaper to take the risk than to issue new cards annually. Shell Oil Company adopted that attitude this year. Other companies are considering two-year cards, "and within five years all major oil companies will be giving a credit card that will be good until revoked for cause," according to William L. Brian, vice president of Farrington Manufacturing Company, maker of the Charga-Plate.

Many companies now are modernizing their cards for automatic tabulation and billing, too. Once printed on pasteboard, the tickets now range from plastic embossed plates to tabulating cards. Sunoco went to books of 25 tabulating cards in 1952, reports "considerable savings." Standard Oil of California is using plastic plates and Esso adopted them this year. Mr. Brian says Farrington sold three million plastic plates in 1955 and expects to top 14 million this year. International Business Machines reports 20 oil companies now are using tabulating machines compared with only one in 1950.

Trimming the cost corners, however, doesn't help to weed out bad credit risks. "Issuance of a credit card is extension of unlimited credit and this is particularly bad when the card is stolen or lost, or gets into the hands of an unauthorized person," says an official of Humble Oil & Refining Company in Houston.

Although considerably less than one percent of credit users turn out to be bad debts, this can run as much as $500,000 a year for the big companies. Diners' Club claims over 95 percent of its customers pay within 60 days, but some companies figure over 15 percent are collection headaches.

One New York trucking firm took an oil concern for $20,000, went into bankruptcy and left the oil company high and dry. Diners' Club once spent seven months struggling to collect a $5,000 tab run up on its credit cards by the daughter of a wealthy West Coast family, who ran off with an elevator operator to Europe for a 45-day honeymoon.

A cardholder can be gone for 60 days before the company knows he is traveling. It may be as long as four months before the firm realizes he doesn't intend to pay his bill, and it takes a considerable length of time to track him down. Finding the culprit is only half of the battle. The company also has to extract the card, preferably without a costly court battle, and then may end up going to court to get paid. Retail Credit Company of Atlanta, Georgia, last summer opened up a credit card pick-up service, taps firms up to $5.25 an hour to wrangle their credit cards from reluctant customers.

SOME restaurant men report that the eating clubs are beginning to suffer from growing pains, too. These clubs contend they provide member restaurants with "plus business"—customers the eateries wouldn't get otherwise. But many restaurants are finding that more of their regular customers are dining on credit cards, and they don't like to pay the clubs seven percent on their regular business. New York's fashionable Sardi's, for instance, quit Diners' Club after a three month trial in 1956. "It turned our cash business into a charge business," explains manager Eugene Eynard. And Philip Rosen, owner of New York's expensive Cafe Chambord, calls the clubs "a necessary evil." The clubs sometimes find a member restaurant discouraging the use of their card and extending credit on its own to avoid the seven percent fee.

Both Diners' Club and Esquire Club now face some additional competition from the American Hotel Association's travel card. After years of chafing under the seven percent eating club fee, hotel restaurants now are joining the non-profit AHA plan, which charges them nothing.

Hotels, which normally have a credit operation anyway, generally don't feel credit cards add much to their overhead. Several hotels issue cards without references. Hilton Hotels Corporation has about 850,000 cards outstanding now, about triple the 1952 figure. The American Hotel Association card, brought out in 1954, is used by about 130,000 people in 4,500 hotels.

Early last year, the National Restaurant Association worked out an arrangement with the American Hotel Association whereby its member restaurants may honor the hotel card.

NOT EVERYONE is sour on credit cards. The airline industry has about 800,000 travel cards outstanding, protects itself against credit risks by requiring a $425 deposit from individuals and companies.

"We don't believe that it's much more costly than doing business on a cash basis," notes an executive of American Airlines. About 65 percent of the airline's customers travel for business purposes, he estimates, and about 25 percent of the total passenger revenues are chalked up via travel cards.

"Our salesmen are constantly pushing this plan," says an Eastern Air Lines sales official. "We've seen accounts jump from $1,000 to $9,000 in four or five years."

The credit card's appeal seems to increase as the value of the dollar decreases. This month's cash goes for last month's charge account bills; next month's pay already is earmarked for current on-the-cuff purchases. The credit customer is likely to continue to sign his name and hope that he will be able to settle up when the bills are presented.

If, suddenly, there is a real financial depression—if the cardholder loses his job or takes a deep cut in salary—what then? The essential living expenses will come first; the charge accounts will have to wait. Credit-giving companies will lose, at least temporarily, on outstanding business, while current business will fall off or cease as the purse strings are tightened.

It could be a disaster—or a blessing in disguise. Until the blow falls, the credit-card addict will go his merry way, his pockets bulging with bits of pasteboard that say he can have whatever he wants—and pay later.

Money talks. Yes, but about all it ever says is "Good-bye."

—S. F. BRANDT

Will The Kremlin Shoot At Us— With Gold?

by Merryle Stanley Rukeyser

A practical approach to containment of Soviet aggression is to explore *in advance* probable Russian moves and thus be ready for them. The Bolshevist technique is to rely on surprises and diversions.

On top of USSR propaganda-exploitation of accomplishments in *sputniks* and missiles, the new Soviet line is to put emphasis on *economic* penetration in the outside world. Donald H. McLaughlin, president of Homestake (Gold) Mining Company, a geologist by profession and a student of the economics of gold, raises the possibility of a *new* Soviet maneuver in the future—based on the Kremlin's holdings of the precious yellow metal.

"Have you given any thought," Mr. McLaughlin asks, "to the *use* the Russians might make of the large stock of gold they now own? "They certainly would not have made such an immense effort to develop gold mines and accumulate a huge quantity of gold at a time when their economy was under great stress, if they didn't intend to employ it in some way to further their ends.

"A sudden announcement of a gold-backed *ruble* for use in international trade might have as *dramatic a propaganda effect* as *sputnik*, especially in the Near East and the Orient where the boys who run the show have been gold-minded for centuries.

"Gold has little or no meaning domestically to the Russians. The *ruble* in Soviet Russia is as close to being fiat money as any currency could be. The importance of gold to them is solely in international dealings, whether in trade, aid or *bribery*.

"The potential danger to us