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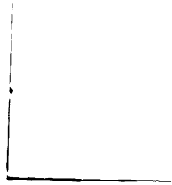

REDEFINITION OF SELF IN A SOCIAL LABELING SITUATION: A SOCIAL PSYCHOLOGICAL INVESTIGATION INTO THE WORLD OF DEFAULT DEBTORS

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ABSTRACT

REDEFINITION OF SELF IN A SOCIAL LABELING SITUATION: A SOCIAL PSYCHOLOGICAL INVESTIGATION INTO THE WORLD OF DEFAULT DEBTORS

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This study investigates social and psychological aspects of consumer credit and personal debt default; it employs the methodology of qualitative field research and treats the substantive problem within a theoretical framework of symbolic interactionism and the deviance labeling approach. The work is organized into three phases, each addressing issues of consumer indebtedness and debt default from the focal point of a different social level. The social-economic environment of consumer credit is of concern in part one. It describes the supply and use of personal credit and traces the development of consumer credit and credit institutions in America, showing how they grew in response to the needs and attitudes of a changing society. In the second phase of study, which focuses on operations of credit-debt organizations within this larger social context, attention is centered on indebtedness and its regulation. A descriptive analysis of debt collection is presented, documented by observational data derived from the author's occupational experience as a bill collector. Debt collection is

portrayed as a social control system containing a deviance labeling mechanism: debtor typifications developed by creditors and collectors to organize their sanctioning efforts impart a career-like structure to debt enforcement; debtors, propelled through this career, are labeled and treated as "increasingly deviant." The progress of the debtor through the enforcement process is outlined to show how deviance labeling results from societal reaction to debt default.

The third phase examines the research problem from the perspective of the debtor. Using data obtained through interviews with debtors in default, it describes the experience of indebtedness. The main phases of a subjectively structured career, and the turning points delineating them, are described in terms of debtors' perceptions and interpretations of events in their lives. Defaulters' responses to sanctioning and labeling by control agents are examined, with particular attention to changing self definitions occurring at junctures in the career where secondary deviance would be likely to emerge. Turning points are revealed as contingencies, places where debtors' definition of self and the situation are revised as new meanings are attached to events in the unfolding indebtedness experience. The data indicate that while redefinitions of self at these points can signal deviant self-identification and escalating deviance, they may also mark entrance to a new career associated with rejection of the deviant label.

This investigation lends support to critics of labeling theory who claim that misconceptions of the societal reactions

explanation in much of deviance literature have tended to give it a deterministic cast by portraying the labelee as passively accepting control agents' imputations of him as deviant. The defaulters under study in this work were found to have resisted the labeling attempt; they protected their self image by providing "accounts" for their behavior which attributed blame for over-indebtedness to outside forces. When faced with the necessity of taking action to solve their debt problem, they saw themselves as persons whose conduct conformed with social expectations. Hence, they resolved the dilemma by seeking the help of debt counselors and continuing their efforts to pay; they rejected the alternative, resigning the will to pay and filing backruptcy. This outcome, which suggests that they had not adopted a deviant self image that would have led to a deviant role, presents a challenge to labeling theory, for it calls into question presumptions that secondary deviance is an inevitable consequence of societal reaction and coercive social control and it casts doubt on labeling theorists' conception of career as a series of objective events marking inexorable progress toward adoption of a deviant self and role. Based on evidence in the form of debtors' own descriptions of their subjective experience, the results of this study point up the interactional aspects of deviance labeling and the importance of labelees' interpretations of events which mark progress in a deviant career. The most significant contribution of this research lies in these findings which suggest needed refinements of the labeling perspective.

PREFACE

Almost universal use of credit for the purchase of consumer goods and services has become an outstanding and highly significant characteristic of the American way of life. In no other country is consumer credit so liberally granted and so extensively used; in no other country is it so essential an element in the nation's financial structure and economy; in no other country does it so intimately touch and so vitally affect family and social life. Once a privilege of only the well-to-do, credit buying has brought the ownership and enjoyment of a wealth of goods and services within reach of Americans of all walks of life. But the affluent and comfortable Credit Society also has its financial victims and outcasts. With the proliferation of goods and services that can be had with credit, with the almost total acceptance of the practice of buying against future earnings, and the increasingly liberal policies of credit-granting institutions, too much debt becomes a serious problem for a growing number of American consumers. True, only about one credit user in twenty is plunged over his head in debt, but for those who find themselves in debt entanglement it can be a debilitating and shattering experience, a problem that intrudes upon many facets of his personal and social life. Contrary to conventional wisdom, only a handful of defaulters are deliberately fraudulent or dishonest; as Caplovitz' recent research shows, only about 1%

(16 out of the 1,320 debtors he interviewed) fit the stereotype of the classic deadbeat. Nor is the problem of over indebtedness limited to consumers of low income. Bankruptcy studies are in agreement that bankruptcy is more of a middle-class phenomenon; the "typical bankrupt" earns over $100 a week, but many have incomes of two to five times that amount. Default is most often the result of an accumulation of an overwhelming load of debt and is usually a gradual process; for most troubled debtors financial difficulty is an insidious problem, one that creeps up on them without their realizing that it is happening. And almost anyone is vulnerable; it takes only a bit of financial carelessness or miscalculation--unrealized expectations, yielding to the temptation to overspend, taking on too many "easy payments"--to put even the seemingly secure consumer over the line to default. This study represents an effort to look into the lives of persons who have become burdened by a debt problem and to see their situation as they see it. It explores the everyday world of the troubled debtor, attempting to describe the social context of his drift to financial difficulty, and to lay bare the experience of indebtedness as it is known to the consumer in default.

Because this investigation has as its goal the understanding of the debtor and his social world, it employs the methodology of participant observation, a mode of scientific study which permits and requires the researcher's firsthand involvement with the empirical world. By participant observation I mean to imply more than a particular set of techniques of data collection; it is also a role

and a methodological stance by which human behavior in its natural context is made known to the investigator through his personal participation in the social sphere of life under study. The merit of a naturalistic approach of this kind is that it respects and stays close to the empirical domain, but the complexity and flexibility of this mode of study puts special demands on the investigator. It must be a disciplined endeavor, with each step of the work carried out in a detailed, organized, and painstaking manner. The quality of field research depends a great deal on the sense of craftsmanship the investigator brings to the work--he must be insightful, imaginative, and resourceful in the intellectual task of bringing together theory, method, and research, as well as in the work of locating, gathering, and analyzing his data. Most important, throughout every phase of his study, the participant observer must remain acutely aware that he is not merely a chronicler or journalist but a social scientist, and it is essential that this be reflected in the reporting of his research. No less than his counterpart who works with statistical data and procedures, the participant observer is responsible for providing an adequate presentation of his research operations and conclusions and the evidence for them. However, because of the nature of this form of research--its use of qualitative data and descriptive analysis, its independence of accepted procedures of conventional scientific inquiry, and its reliance on the personal involvement of the researcher--scientifically adequate reporting of a naturalistic investigation is not an easy task. It is nonetheless the responsibility of the participant observer, as

with any other social scientist, to make every effort to see that the reader is given an opportunity to follow the details of the several stages of the research, to enable him to see how the conclusions were reached and to make his own judgment as to the adequacy of the evidence.

I have endeavored to live up to this responsibility; adequate documentation of my conclusions and explanations of my research procedures are, I believe, contained within the text of this dissertation. I have not, however, explicated the way in which the research problem was arrived at or how it evolved as a substantive focus to be treated within a particular theoretical framework. This, too, should be made known to the reader, for it is in this phase of a naturalistic sociological study that the researcher's personal involvement makes a most significant contribution to his work. The substantive area in which he takes interest, the aspects of the topic he identifies as a sociological problem, and the approach he takes in addressing it as a subject for research are all in some way a reflection of his past experience, his training in the discipline, his own view of the world, and the unique bent of his imagination--and all this is a part of the sociological imagination that goes into his intellectual productions. I wish, therefore, to append a brief prefatory statement outlining how I came to the problem with which this dissertation is concerned, how the conceptualization of it developed as it did, and how the objectives of the study were brought into focus.

A radio broadcast in 1969, which featured an interview with a spokesman for Credit Counseling Centers of Michigan, was the source of my idea to do a study of people in debt. The counseling agency representative was describing the general problem of personal indebtedness--how the amount of consumer debt had grown into the billions of dollars and how personal bankruptcy rates had soared to record heights in recent years. He spoke of the problems of individual debtors--garnishments, the incidence of families broken by desertion and divorce. And he told how the CCC had been formed with the support of private industry to help and rehabilitate troubled debtors. The case load of the agency, he explained, was not made up only of low-income people having trouble with debt; their clients came from all walks of life and many of them had good jobs and substantial earnings. Citing aggregate figures based on cases in CCC files, he drew a profile of the "average" agency client, describing him in terms of age, sex, family size, income, debt load, and so forth. This program initiated my interest in consumer indebtedness by calling to attention its problematic aspects that had not entered my thinking before. I had not been aware that personal debt was a widespread problem of broad social-economic concern, taking it to be simply an occasional event that had something to do with being poor or disreputable; I now saw that over-indebtedness was a serious difficulty affecting the lives of a wide variety of American consumers. Recognizing as "sociological variables" the characteristics by which the speaker had described an average agency client (age, education, family size, etc.), I

now realized that "out there" was to be found a social category of debt-trouble people and that could be a legitimate concern for sociological research.

The focus of the study took shape over the next several years. Sensitized to the problem, I began collecting materials that appeared in the media about consumer debt, talking informally with people whose work was connected with lending or credit and collecting and the like; especially, I took notice of my own attitudes and experiences as a credit user. (It was about this time that bank cards came into use and were being issued, unrequested, to qualified consumers, and I was struck by the paradox of this effort to encourage credit use in the face of the well-publicized problem of rising bankruptcy rates.)

The next step, an organized search of the existing literature on consumer indebtedness, soon disclosed the lack of sociological interest in this area; with a few exceptions, such as Caplovitz' study of consumer practices of low-income families, most of the writings came out of business and consumer economics, and bankruptcy in its various aspects was the most frequent research concern. Reflecting on what I had learned thus far I concluded that consumer debt, as it had been variously examined from different perspectives and disciplines, constituted a problem to be differently viewed from several social levels. Economics, for example, looked at outstanding consumer credit volume and consequences of bankruptcies at the macro social-economic level, while students of business and family life were most concerned with the production and use of credit and

with the effects of large indebtedness at the level of social organizations. This general pattern in the existing research suggested to me the possibility of a sociological study which would take into account each of these perspectives, but would consider as well the personal problems of indebtedness and default. Such a study would look first at the overall picture, describing the growth of consumer credit and proliferation of opportunities for its use and its place in the nation's economy. It would focus next on the institutions and structures within this context, to show how they had developed in response to consumers' needs and attitudes in a changing society, and then examine the operations of contemporary credit-debt organizations, emphasizing the interaction taking place between organizations and individual consumer debtors. Since I envisioned the work as a social psychological investigation, however, its main thrust would be directed to the problem of consumer debt at the individual level; from this point of view I was interested in learning how the individual in the role of consumer fit within the general structural context, and I wanted most of all to understand what "debt trouble" meant to the individual debtor as a person.

It was at this point that the research problem emerged as one appropriate for examination within the theoretical framework of symbolic interactionism, for it would have as its concern both the social organizational processes comprising the context of human behavior and the individuals engaged in on-going meaningful action in everyday life. I felt that the Meadian "image" of man and society best fitted the conception of the nature of human behavior and social

structure that I had in mind; because much of the work would be focused on interaction taking place among individuals and organizations as acting units of society and on the on-going processes of interpretation and typification by which human social interaction is made possible, my study needed to be cast in terms of a perspective that emphasized such notions as emergent meanings, self-definitions, and situated aspects of behavior. The fact that this was to be an investigation into the "world" of default debtors, a study that would look at the interaction between credit-debt organizational processes and individual consumer debtors and at the actions and subjective experience of defaulters as well, brought to the fore one of the main objectives of this work: it was to present an empirical instance of processes described abstractly in symbolic interactionist theory and illuminate specifically the distinguishing feature of Meadian social psychology--its position that social structure, viewed as processual in nature, is impacted, shaped, and altered by the behavior of individuals, even as individual conduct is influenced or limited by its social structural context.

Putting together the ideas I now had, particularly those acquired in my readings on bankruptcy and the procedures creditors use in managing their accounts and trying to prevent debt losses, it seemed that the study might best be organized around the activities and procedures of debt collection; it would display the workings of creditors and collection agencies and then attempt to describe these activities from the debtor's perspective, showing how he perceives and responds to them and how they affect his life.

I had already begun looking for ways to obtain specific information on credit granting and collecting, hopeful that his might also lead to discovery of some means of getting access to data on people in debt. My preliminary talks with credit counselors proved to be only generally helpful, as did an interview with the head of the credit bureau; I did, however, receive the latter's permission to attend a credit seminar for credit management personnel and it was through this experience that I first gained insight into the way in which defaulters are viewed and treated by creditors. Coming to it as an outsider, I was quite surprised to hear the lecturer speak in terms such as "working the account" and "going after the tough ones," and referring to certain debtors as "deadbeats." This revealed to me the negative identifications creditors attach to delinquent debtors; I saw that defaulter and bankrupt might be treated as stigmatizing social roles and it occurred to me that debtors were assigned a deviant status by the people to whom they were owing. These ideas led me to consider the possibility of using deviance and deviance labeling as an analytic approach for examining debt collecting and debtors' responses to creditors' actions. Just as I had begun to develop this line of thought, Paul Rock's work, a labeling theory analysis of the English debt-collection system, became available. His study, depicting debt collection as a process by which deviant labels are originated and applied to debtors through the methods and procedures of collectors, complemented what I wanted to do and suggested a direction to take in attempting to examine the two sides of debt-related organizational processes. Adopting Rock's

general societal reaction-labeling framework, I went on to develop my examination along those lines; guided by Rock's conceptualization of the collection process as a mechanism by which deviant labels are generated and applied to debtors, I decided to look for evidence to show that the American collection system functioned in a similar fashion, after which I hoped to discover how debtors respond to being labeled and treated as deviants.

When the research project had reached this stage in the planning, I decided that a naturalistic approach to the study was called for. The rationale for this decision was based primarily on my acceptance of Blumer's views, his explication of the fundamental assumptions of Meadian social psychology, and the recommendations he had set forth in outlining the methodological position of symbolic interactionism. I had already developed a general idea, a set of images, about the sphere of life to be examined and established the main questions and problems that were to give direction to my inquiry. This research outline, loosely formulated in terms of "sensitizing concepts," and the theoretical orientation that I had adopted as its guiding framework, required a mode of study which would yield a close personal understanding of the processes and behaviors under examination. I was beginning my study as an outsider; the general images I had developed about collectors and debtors and how they acted and responded to one another were useful in locating the events to be looked at and in directing the initial steps in my exploration, but if I was to understand the behavior of debtors and the procedures of credit-debt organizations,

it was essential that I find means by which to gain intimate familiarity with them through firsthand involvement and by direct observation as a participant in the events I wished to explain.

Consistent with this commitment to a "naturalistic stance," the descriptive analysis of the collection process (contained in the third chapter of this work) was grounded in evidence derived through my personal experience in a collection agency, actually doing the work of a bill collector and taking part in agency procedures. The kind of data I needed to describe the feelings and actions of debtors in response to the processing of credit-debt organizations, and the way in which it had to be gathered and analyzed, were also dictated by my decision to pursue a naturalistic investigation. As the study evolved, and its aims were tightened and clarified, the phase directed to exploration of individual debtor behavior came to be focused on the responses of defaulters as labelees to whom deviance is imputed by collectors in the performance of debt regulation. The form of data that would directly reveal the feelings of debtors, enabling me to explain the nature of indebtedness as a subjective experience and to describe the personal responses of persons ascribed a deviant identity, had to be obtained through unstructured, in-depth interviews. The source of such information, I felt, must be debtors presently undergoing the experience of default--being subjected to the coercive treatment of debt enforcement agents. This decision was based on my use of secondary deviance as the key concept linking debt collection as a social control process with the subjective indebtedness career known

to defaulters. This phase of exploration was directed by the "sensitizing hypothesis," drawn from labeling theory, that societal reaction to situational deviance, particularly coercive enforcement and negative labeling by social control agents, would likely bring about an escalation of the deviance by leading to secondary deviation, i.e., to the labelee's identification of himself as deviant and to his adoption of a deviant role style. To find suggestions helpful in applying this idea to debtors and debt collection I looked to the research literature on other forms of deviance that utilized the secondary deviance concept; my search revealed that findings in this area were most often based on retrospective data and I quickly came to the conclusion that more could be discovered about labelees' responses to social control, particularly as concerned with secondary deviance, if data could be gathered from persons actually involved in an on-going process of labeling. This meant that defaulters identified by public records (as with debtors who have filed bankruptcy) would not provide the kind of information I wanted. It was for this reason that I sought the help of counseling agencies; through them I succeeded in gaining access to people who were presently caught up in debt trouble and engaged in on-going interaction with credit-debt organizations and agents of social control. In this way I could learn about the labeling process through the descriptions of this experience provided by labelees themselves, and it enabled me to discover something of the conditions under which secondary deviance would be more or less likely to occur.

Through my efforts to apply labeling theory to the activities and circumstances of debt default, certain difficulties and ambiguities in the labeling perspective were brought to light, and these are elaborated in my concluding chapter. I regard the discovery of weaknesses and misconceptions in the societal reactions approach to deviance as a main contribution of this study, one which came about as a result of two features that were incorporated into the work: first, its attempt to examine as "deviance" a form of behavior not commonly regarded as deviant exposed labeling theory to a more critical test of its explanatory power. Further, by employing a naturalistic mode of examination, this investigation was better able to reveal and explain the subjective responses of individuals labeled as deviant by social processes, thereby helping to clarify one of the most troublesome aspects of the labeling perspective.

Whatever the value of the contributions this study may make to the literature on consumer indebtedness, or to the theoretical development of the symbolic interactionist and labeling approach, much of the credit for it must go to those who aided me in carrying it out. I want to express my appreciation to Dr. Peter Manning, who served as my dissertation advisor, and to the members of my graduate committee, Dr. Donald Olmsted, Dr. Denton Morrison, Dr. William Ewens, and Dr. Barrie Thorne. To each of them I extend my sincere thanks for their careful and critical reading of the manuscript and for offering insightful and constructive comments on the work. I am especially grateful to Dr. Manning for his assistance

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Although they cannot be named, I also acknowledge my indebtedness to the many people who helped me to learn about credit practices and debt collection and who made it possible for me to obtain the data essential to this work. Particularly, I thank the counseling agency managers for their helpful suggestions and for doing the work of putting my interview request in the hands of their clients. I am most sincerely grateful to each of those anonymous persons who responded to my inquiry and I especially thank those whom I interviewed for giving so freely of their time and for talking with me, frankly and openly, about themselves and their personal feelings and experiences as debtors.

While it falls short of expressing my true gratitude to him, I would like to add this special word of thanks to my husband for the unfailing encouragement and support he has given me in this endeavor.

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CHAPTER 1

INTRODUCTION

Problem Statement and Literature Review

This study has to do with people in debt and with the debt-collection process as it identifies and deals with them and permits them to be labeled as defaulters, but it is neither an analysis of indebtedness nor a treatise on labeling. It is concerned with these matters only insofar as they bear on the development of the principal theme which is an attempt to analyze and understand an important aspect of Meadian social psychology: the process of self-redefinition, changes in identity, or self-conception within the context of social structure.

Although their experience with personal indebtedness is known to have profound effects upon the lives of individuals in modern society, this has been almost totally neglected by social psychologists as an area of investigation. The substantively relevant literature has, with few exceptions, taken the form of fact-finding surveys and applied research efforts directed toward solutions to business-economic problems. Starting around 1950 with the ending of wartime consumer goods shortages, a phenomenal growth in consumer credit occurred in this country and with it came alarming increases in personal bankruptcy rates. By the late 1960s consumer credit had expanded to more than five times its 1945 volume and

personal bankruptcy filings, numbering 8,566 in 1946, had leaped to a record 191,729 in 1967. These events spawned an outpouring of studies produced mostly by students of business-finance and family economics whose main interests were identifying the causes of bankruptcy and finding ways to bring soaring bankruptcy rates under control.[1]

The work of sociologists in this area reflects an equally limited concern. Between 1960 and 1970, a series of programmatic studies in behavioral economics was conducted at the University of Michigan Institute for Social Research under the direction of psychologist George Katona. These monographs report findings obtained in periodic interview surveys using representative samples of Americans as "spending units." They were financed primarily by private business and contain factual data as would be of use to the business community--on consumer finance (distributions of income, expenditures, assets, and debts) and on consumer sentiment (attitudes, expectations, and inclination to buy). As such they are a valuable information source but do not represent a contribution to a line of theoretically informed social research.

David Caplovitz is quite alone in his concern with problems of personal indebtedness among American consumers. His work however, although sociologically oriented, deals with debt entanglement and relations of consumer debtors with credit-debt institutions as topics for social action research; the Caplovitz studies are not concerned primarily with development or verification of sociological theory, but concentrated on exposing unfair and exploitative

credit and collection practices and suggesting guidelines for reform. The Poor Pay More (1963) reports the results of a survey conducted by the Bureau of Applied Social Research to identify the financial problems of consumers in low-income urban areas of New York City and the types of families most vulnerable to these problems; its purpose was to provide a factual basis for developing programs of action in this area. Consumers in Trouble (1974), which describes the experiences of consumer debtors who defaulted on their obligations, is based on interviews with debtors in four American cities; the interview sample was drawn from court docket books, i.e., respondents were all debtors who had been sued by their creditors. Research interest in this study was directed to answering two basic questions--why debtors default on their obligations and what happens to them when they do. In reporting his findings in these studies, Caplovitz takes the role of advocate for the poor and unprivileged; they are presented as empirical support for the claims that debtors are victims of our consumer credit system, that consumers--especially the urban poor--are exploited by credit granters, that consumer debtors do not receive fair treatment in the courts which operate favoring creditors' interests. The central theme of his most recent book, as described by Caplovitz, is "the injustice that has evolved in this impersonal world of consumer credit."[2] Despite our shared interest in consumer indebtedness as a general substantive problem area, the Caplovitz studies have somewhat less relevance for the particular research issues of concern in this thesis than has that of Rock; while Caplovitz' survey findings and conclusions

have important corroborative value for the present, more limited research, his work does not share the same general theoretical perspective as does Rock's examination of debt, which is set in a deviance theory framework.

The work of sociologist Paul Rock (1968, 1973) dealing with the debt-collection system in England represents the only investigation in the area of personal indebtedness that is grounded in and contributes to interactionist theoretical social psychology. Symbolic interactionism serves as its general organizing perspective, although the problem is conceptualized in terms of the societal reaction theory of deviance, i.e., "labeling theory." While Rock characterizes his study as "a piece of descriptive sociology which attempts to lay bare the structure of the English debt collection process," it is more than simply a descriptive account of the workings of a particular segment of social organization. This is a systematic analysis of personal indebtedness which focused primarily on the structural side of consumer credit-debt phenomena. The various organizations involved in lending and collecting are depicted as serially linked, forming an integrated system of social control designed to manage the unique problem of debt default. The agency practices and legal processes which comprise the debt enforcement system are shown to be centered about a fundamental concern with the actual and potential impact of this social control on the debtor. Debt regulation thus becomes a system of artful control structured by interpretive processes operating in a reciprocal structure-person interaction. Emphasizing the dynamic

aspects of this relationship, Rock shows that the construction and application of collection procedures involve careful impression management; the increasingly severe enforcement sanctions that effectively induce defaulters to pay must stop short of coercive efforts that would lead to the development of a negative self-image. The analysis reveals the impact of individual behavior upon social structure: the organization of the collecting process, centering as it does around a concern for the defaulter's subjective responses to its sanctions, is itself shaped by individual debtors whose overt behavior it is designed to control. It is its unique sensitivity to debtor responses that gives the debt collection process its particular structural form, described by Rock as "a bureaucratically ordered career analytically divisible into stages with increasingly harsh sanctions available to social control agents at each stage." Thus it is the collection process which imposes deviance upon the defaulter as he is propelled through its successive phases of sanctioning efforts. On the basis of this general argument, the investigation is cast in terms of deviance theory although it is more an organizational study of debt collection than an examination of individual deviant behavior. Since it is the most significant piece of sociological literature in this area and more importantly, because his descriptive analysis of the social structure of debt collection augments and provides a foil for the present investigation of debtors' self-images, further elaboration on Rock's work is appropriate.

In Rock's analysis the debt collection process, conceptualized as a social control system, imposes deviance upon the person who defaults in payment of his debts while at the same time the experience of the debtor is crucial in determining the methods used by social control agents in the debt enforcement process.

> At each phase of the collection career, new influences appear and are transformed in systematic fashion. For the defaulter passing through the phases, these influences become the materials for the construction of an emerging self.
>
> Social control is not taken to be a mere context of deviation; instead it defines, shapes and infuses rule-breaking. Control plays an unusually critical role in the regulation of debtors' identities because there is relatively little autonomous development within default itself. The debtor's deviance resides in his refusal or inability to perform desired acts. Process is imposed on default by the career which is organized for the debtor. A defaulter who does not repay a debt is made to undergo a series of forced changes of experience. The moral career of the debtor is so arranged that his passivity is interpreted as "becoming." Without the effort of debt collecting institutions there would be no process.[3]

Centering the analysis on the intensive interaction taking place between debtors and the various groups concerned with coercing them into paying debts brought to light certain features (status-forcing, bench-marks, a developmental character) which suggested that the collection process could be regarded as a "career." Each of its successive phases involves a change of status and a different pattern of action directed against the debtor. The social control agents--creditors, debt collectors, attorneys, prison officers--have increasingly harsh sanctions that may be applied to debtors in their related roles. Each change of name symbolizes a different stage in the collection process and a forced status

change for the debtor who is serially a credit applicant, a debtor, a defaulter, a defendant, and a prisoner.[4]

Treating debt default conceptually as deviance, the analysis is developed within the labeling perspective by which deviance is regarded as a label successfully applied by one group to another, not as an intrinsic quality of behavior. However Rock makes it clear that debt default differs from rule-breaking behavior which is so unambiguously outside the boundaries of acceptable activity that it is commonly regarded as deviant. The deviance of indebtedness is not immediately apparent for it lies in the debtors' failure to act; it thus falls to social control agents who must cope with it to decide who qualifies for inclusion under a deviant label and justifies the application of social control. Rock's insightful view of the nature of personal indebtedness and how it becomes a form of deviance via the workings of the collection process directed the focus of his work to the labeling process itself and understanding this definitional process became a major research goal. To this end, attention centered on the social control of indebtedness; abstracting from observations of the actual practices of agencies comprising the debt enforcement system, Rock identified the main general characteristics of the collection process to show how it goes about making determinations which define and shape the deviation. This focal concern with the function of the collection system as definer as well as enforcer of debt deviance led to the uncovering of the unique quality of debt enforcement--the crucial role played by debtors' responses to these labeling and sanctioning

activities. It was the exploration of collectors' attempts to manage so unusual a form of deviance which revealed enforcers' concern for the consequences of their actions and led Rock to the realization that social control of debt was always conducted in such a way as to allow debtors to retain a favorable conception of themselves. This point became a major theme in the work; i.e., the remarkable feature of debt collection, represented as a deliberately constructed moral career, is its propensity to protect debtors' self-conceptions even as it relies on debtors' subjective responses to make collection efforts effective. Rock then pushed this idea somewhat further and turned "protection of favorable self image" into "prevention of secondary deviance," attempting to show this to be the guiding concern in debt enforcement. Briefly summarized, his argument on this point is developed somewhat as follows.

Default is an unusual kind of "private deviance" in that it tends not to excite moral outrage or attract attention as a social problem; thus its enforcement is entrusted largely to its victims who are engaged in a complex process of sorting, filtering, and pressuring to achieve the goal of debt enforcement which, unlike that of most social control, is to move the passive deviant to act--that is, to pay. Since control of indebtedness is not directed toward inducing a one-way trip out of wayward behavior as is that of most other sanctioned acts, treatment of debtors must be carefully orchestrated so as to compel them to make restitution without jeopardizing their participation in future credit transactions. Debt collectors seek to provide defaulters only that route which

leads to a return to the normal, moral community and he must be allowed egress from his deviant career at whatever stage he temporarily occupies if he makes good his default. Since defaulters are regarded in this way, as potentially redeemable, default is viewed as "conditional deviance" and it is controlled by the prudent application of social pressures, increasing as necessary but applied only to those who, remaining recalcitrant, have not found exit from the system.

The crux of his argument lies in the concept of secondary deviation. Rock contends that control agents must be wary of applying coercion or exercising symbolic control which relies on self-degradation since such measures risk arousing debtors' hostility and resentment and may precipitate an altered (i.e., negative) self-image. In view of its counter-productive results for collectors, they cannot take the chance of escalating defaulters' deviance by such transformation of identity; applying sanctions that severely antagonize or embitter the debtor might lead to his acceptance of himself as deviant and result in his resigning all effort to pay. Thus the collection process is itself directed through its control agents' apperception of an ever-present possibility of the debtor's development of a negative self-image. The deviance of debtors is managed to protect debtors from public degradation and ostracism which would amplify their deviance for this is likely to lead to a change from "conditional" to secondary deviance.

> Debt collection is a consciously conceived series of actions and is thus a far more articulate system than that which obtains with any other mode of enforcement. [It]

> must cope with a vast number of cases and procedures must be routinized and simplified. This leads to a relative inflexibility and to an automatic increasing of the pressure put upon the debtor, coupled with an assumption of his increasing guilt and deviance. If the debtor does not intervene he will routinely become identified as a deviant.
>
> If a debtor persists in his default he will pass through an enforcement career, but payment in any of its stages will lead to immediate cessation of coercion. Consequently the debtor's evil is rarely dramatized since such labeling might result in the assumption of a deviant role style which forbade any payment or negotiation.[5]

In short, Rock devotes much of his work to arguing that the regulation of default centers on the preservation of the deviance in primary form. The social control of indebtedness is uniquely characterized by the elaborate steps taken at every stage which are designed to prevent the emergence of secondary deviance.

This expansion on Rock's study is intended to familiarize the reader with the argument he presents because certain elements of his assumptive framework are incorporated into this thesis, in particular his conceptualization of the social structural aspects of indebtedness. As should be evident from the foregoing summary, Rock's main interest lay in the process and structure of the debt collection system, but a concern for the emergent self-concept of defaulters is woven through his analysis; conversely, the immediate concern of the present investigation is the debtor's self-concept but it gives important consideration to the larger structural setting within which self-images develop and change. The complementary nature of these two studies is emphasized: since both address similar and related issues within the conceptual framework of symbolic interactionist-labeling theory, there is promise of

fruitful theoretical development in attempting to integrate the logical arguments and substantive findings of Rock with those set forth here. Various points of articulation presented by these works will be considered further in the ensuing discussion which deals with the conceptualization of the problem at hand. Suffice to say here that the principal linking concept is that of secondary deviation which, as a form of self-redefinition, provides a meaningful point of departure for the theoretical integration that is proposed.

Theoretical Framework and Conceptualization of the Problem

This exploration of the changes in self-concept experienced by default debtors within a debt-relevant structural context is grounded in the general perspective of symbolic interactionism. This approach sees a human society as people engaged in living; such living is a process of ongoing activity in which participants are developing lines of action in the multitudinous situations they encounter. They are caught up in a vast process of interaction in which they have to fit their developing actions to one another. This process of interaction consists in making indications to others of what to do and in interpreting the indications as made by others. They live in worlds of objects and are guided in their orientation and action by the meaning of these objects. Their objects, including objects of themselves, are formed, sustained, weakened, and transformed in their interaction with one another.[6]

Casting the investigation in an interactionist framework implies a commitment to the basic assumptions of that perspective in the selection and utilization of conceptual elements. The distinctive approach of Meadian social psychology also places an obligation upon the researcher to employ methodological strategies compatible with these assumptions and capable of dealing with its unique theoretical components. Denzin, arguing that different lines of action are implied by the perspective from which a study is developed, identifies the central assumptions of symbolic interactionism upon which he bases the methodological and theoretical conditions which must be met in designing interactionist research. These are summarized in the following paragraph.

The interactionist view of human behavior assumes that humans can act toward themselves as they would toward any other object, i.e., that human behavior is self-directed and hence observable at two distinct levels--the symbolic and the interactional (or behavioral). The keys to understanding human conduct are the range and variety of symbols and symbolic meanings which are shared, communicated, and manipulated by interacting selves in social situations. Society contributes two essential elements that reflect directly on concrete interactions; the symbols or various languages provided and communicated through the socialization process and the concrete behavioral settings in which behavior occurs. The interactionist perspective further assumes that a complete and meaningful analysis of human conduct will capture the symbolic meanings that emerge over time in interaction. Symbols

(linked with interaction in the Meadian theoretical view) are manifold and complex in their variety of forms, all providing clues to the symbolic meanings that emerge out of interaction. Given this set of assumptions, the following methodological mandates are binding upon symbolic interactionist research:

1) Research strategies must be capable of capturing processual elements in human interaction and methods must yield information on both stability and change as aspects of group life. The emergent relationship between self conceptions, designated meanings, and reflective interaction must be recorded, analyzed, and explained. The essential fact that human conduct reflects processes of the past, present and future, all playing simultaneously upon man's behavior, must be within the grasp of the methodology.

2) Research methods must consider the "situated aspects" of human conduct. Since variations in behavior can arise from such situational aspects as objects that constitute the setting, definitions given the respective interacting selves, the meanings and definitions for action held before interaction occurs, and the temporal sequencing of action, these aspects must be taken into account as dimensions of the analysis. Social selves constitute situated objects that reflect a person's ongoing definitions of self in the settings at hand, thus both the meanings attached to these situations and the types of selves that emerge within them must be examined.

3) Because symbols, meanings and definitions are forged into self definitions and attitudes, the methods must be capable of capturing the reflective nature of selfhood. To indicate how shifting definitions of self are reflected in ongoing patterns of behavior, the investigator must view human conduct from the perspective of those being studied. The shifting meanings and statuses assigned to the self must be indicated in the examination, consistent with the Meadian focus on the self as both process and object.

4) Research directed to examination of meanings and conception of self must link the symbols and meanings of research subjects to the social circles and relationships that furnish him those conceptions or the analysis remains largely psychological. This suggests a two-step process of investigation into meanings at both individual and interactional levels. This principle, while not unique to interactionism, derives from the sociological view that the impact of broader social structure on individuals and groups must be included in the investigation. (Interactionism in the Meadian tradition does

take a distinctive view of the nature of person-structure relationships, however, and this is made explicit in the statement of position which is presented below.)

5) Symbols and interaction must be brought together before an investigation is complete. Interactionist methodology must permit both covert symbolic behavior and overt patterns of interaction to be examined and related in the research. Techniques which focus on symbols alone (as do attitude scales) are not adequate for explaining human conduct, nor are strategies which uncover the meanings held by a set of persons and carried into an interaction; until the link between symbols and interaction has been considered no examination is complete. Because meaning shifts during interaction, studies must be concerned with interpretational phases and with the unfolding meaning objects take on during interactional sequences.[7]

These theoretical-methodological principles clearly indicate that the unique assumptions and fundamental concerns of symbolic interactionism place certain demands upon the research design in terms of the kinds of concepts and methods it employs. Blumer, writing about the problem of the concept in sociological research and the gap which exists between concepts and the facts of experience, calls for the use of "sensitizing concepts" to achieve a more effective interrelation between thinking and empirical observation and for research and theoretical designs that respect the empirical existence of the interpretive processes by which human group life operates.[8] In a similar vein, Denzin urges researchers to regard methods not as atheoretical tools but as means of acting on the environment and making that environment meaningful, mindful that theory and methods must always go hand in hand.[9] These ideas represent the general body of thought which has been instrumental in conceptualizing the problem and developing the research strategy by which it is carried out. The particular methods employed will be detailed in the section which follows; the point of emphasis

here is that the methodological stance of this study has been organized to fit the symbolic interactionist theoretical perspective which serves as its general frame of reference. Because of its distinctive view of man and society and its concern for symbols and common meanings which link the person and social structure, this perspective calls for concepts which reflect these features as they are observed in the world. The observational techniques and modes of analysis have been selected for their capacity to capture the qualities of social and symbolic interaction conveyed by these concepts and for their utility in dealing with the properties attributed to human behavior by this perspective, particularly the processual character of social interaction and the emergent nature of the meanings of objects, including the definitions assigned to the self. Finally, and on a different level, this study has also been designedly formulated to be an exemplification of the tenet setting the symbolic interactionist approach apart from all other forms of social psychology; while its main thrust is to reveal at what points and in what ways changes in self-concept occur in the course of interaction episodes and how social institutions and structure bear upon those changes, research effort is also directed to developing a descriptive presentation of the institutional-structural setting for the "situated aspects" of human experience, and instances which show that this structural context itself consists of ongoing human interaction are brought to the reader's attention. The research design thus becomes a direct reflection of

the following statement of position expressed by a principal exponent of the symbolic interactionist orientation:

> On the one hand, social psychology is focused upon explaining the behavior of individuals as it is controlled, influenced, or limited by the social environment. On the other hand, it is concerned with the manner in which the behavior of individuals reacts upon, shapes and alters social structure.[10]

This study does not follow the procedures commonly used in most social inquiry. It does not start with key concepts drawn from a theoretical model and pinned down to the empirical references at the outset; although the problem is conceived in terms of a general theoretical orientation which represents the way in which the empirical world is assumed to be structured and to operate, it does not set specific hypotheses with regard to the research problem and therefore it does not involve a conventional mode of inquiry by which precise data are obtained and used for testing hypotheses. Instead of stemming from the scheme of the research inquiry, the problem this study poses, the questions it asks, the leads it follows, the relationships that are envisioned, the kinds of interpretations it strives to make, and the data it uses are all developed out of its basic aim--to achieve understanding through familiarity with the empirical area under examination. That the problem is not formally "conceptualized" in terms of explicitly defined concepts, that the concepts are not operationalized as research variables prior to data collection, is not to say that the study is not an empirical one or that it is unsystematic. Rather, it represents a form of scientific inquiry which relies on the procedures which Blumer speaks of as comprising a "naturalistic

investigation"--an investigation that is directed to a given empirical world in its natural ongoing character, not a preset image of it--and the procedures it requires are depiction and analysis or in Blumer's terms, exploration and inspection.

The aim of exploration as a mode of inquiry is to develop as comprehensive and accurate a picture of the area of study as conditions allow. By this means an unfamiliar sphere of social life becomes known, thus permitting the inquiry to be developed along unforeseen lines as the study progresses. Because the exploration procedure has this flexibility, research can begin with a broad focus and then, as a better grasp of the problem is gained, the inquiry is gradually sharpened; this makes it possible to develop ideas of what are the significant lines of relation and to evolve conceptual tools in the light of what is going on in the area of social life under study. The descriptive information and the general stock of knowledge produced by exploration is of great value but this procedure is not of itself adequate in providing the careful direct examination of the empirical world that is required in scientific research. It must also involve an analytical procedure and the companion mode of inquiry is what Blumer calls "inspection." Its aim is to move beyond descriptive accounts toward sharpening conceptual meanings and developing generic relationships and theoretical propositions. The procedure consists of intensive examination of the empirical instances covered by the conceptual elements in which the problem is cast. This must be a meticulous shifting scrutiny directed at pinning down the empirical content of

these analytical elements and discerning the nature of the relationships between them and it must be done in the context of the empirical area to which they pertain.[11]

The particular empirical area which this study explores is the world of the default debtor. It first depicts that world as it is generally known, describing the network of social-economic agencies and institutions that comprise the structural setting of activities relating to consumer credit and indebtedness. The individual is then placed against this background; his progression from credit-user to defaulter is outlined to emphasize the developmental character of indebtedness as it occurs within that structural context. The purpose of this phase of the exploration is to present a picture of this area of social life, to set the scene so that the social interaction which constitutes the empirical world of defaulters may be better understood. The research focus is then narrowed; attention turns to the particular community which serves as the research setting and interaction between individuals and debt-relevant structures and their agents becomes the point of concern. In this phase the aim of the exploration is to acquire an insider's view by which a more complete and accurate portrayal of the social context can be constructed. The study takes the debtor's role into consideration at this stage but interaction episodes and social processes are described more from the perspective of persons who occupy roles in these structures. It is here that articulation of the present inquiry with that of Rock becomes apparent; as the practices and procedures employed in the lending and collecting of

money are described, the outlines of a career line begin to emerge. The main alternatives available to the individual along the route from credit user to defaulter are identified and the picture is filled out by indicating the kinds of structural pressures which influence his perceptions of alternative courses of action and his choices among them.[12] Thus we see the unfolding of the indebtedness career within the context of debt-relevant institutions capable of altering the individual's "debt condition" in many ways, moving him into indebtedness and advancing his "deviance" as well as offering him avenues of reprieve and influencing his evaluation of the various ways of exiting the career.

When a fairly complete picture of debt-related social structure has been drawn, and filled in with an account of its workings vis-à-vis indebted individuals which reflects the perspective of the social agents who carry them out, the default debtor is made the focal point. This phase of exploration is the most important because it deals directly with the main research issue; its aim is to understand the experience of being in serious financial difficulty and to describe that experience from the point of view of persons who are going through it. This description begins from the assumption that individuals in the default debtor role are not intrinsically different from other members of society and that they have not come to occupy that role by committing a discrete act which is commonly regarded as unacceptable social behavior.[13] Here again untilizing ideas developed by Rock, the investigation traces the career line of the defaulter to show that

he enters this process gradually in the course of everyday life, starting with his participation in activities which touch the lives of virtually every person in America who plays the role of consumer. To gain an intimate knowledge of what it is to be a default debtor now becomes the goal of the exploration procedure; it attempts to probe the personal feelings and emotions of debtors and to disclose the meanings this experience has for him. An understanding of the subjective aspects of indebtedness, coupled with the knowledge and insights developed in earlier phases of the study, makes a complete picture. From it can be extracted a theoretically relevant grasp of what occupancy of the social role of default debtor brings to the person in terms of his attitude toward himself and which aspects of the debt career experience are most strongly linked with changes in his self-definition.

The analytical elements employed in conceptualizing the research problem reflect the assumptions of the theoretical framework which grounds it; they provide a general sense of reference and guidance in approaching empirical instances, but the concepts are not precisely defined in terms of specific attributes or dimensions as the inquiry opens. The concepts employed are cast in differing degrees of generality and address different aspects of social organization--some have to do with structure, some with process, and others with the self. The key items in the analysis include categorical terms fundamental to symbolic interactionism: structure, process, interaction, self, role; more specific conceptual elements refer to career lines and their critical turning points, to

alternative courses of action, definition of the situation, and to role taking, identification of self and other, and of course to transformations of identity. The latter, a generic analytical item, covers the concept of self-redefinition which is at the heart of this study. It directs the investigation to empirical instances of individual debtors experiencing self-definitional changes as they go through indebtedness careers. This phase of analysis calls for a set of concepts generally related under the rubric of labeling theory because it is cast in terms of social deviance; debt-related structure is regarded as a social control system which imposes a deviant career upon defaulters as they are propelled through the integrated stages of collection efforts constituting the process of debt enforcement.[14] Thus the relevant conceptual components include the notion of deviance, societal reaction to deviant behavior, social control, secondary deviation, stigmatization, and the social labeling process itself. Analysis of identity changes in the light of labeling theory also involves neutralization techniques, a notion conceived by Matza and Sykes which is germane to the labeling view but not specific to it.[15] The use of this idea as an analytical tool suggests the introduction of several other related concepts which are not by any means unique to symbolic interactionism but are given a distinctive meaning in that frame of reference. These concepts, all used in a way that links them to one another and to the idea of situated definitions in general as well as to neutralization techniques, include rationalization, "accounts" as explanations for behavior, and motives.[16]

The importance given to the labeling perspective in formulating and conceptualizing the research problem makes it necessary to explain briefly how labeling theory is regarded in this work. Meadian symbolic interactionism is generally recognized as the social psychology which infuses this perspective as seen, for example, in Schur's remarks:

> Without doubt the most significant theoretical strand present in labeling theory derives from the symbolic interactionist tradition of the Chicago school, for the approach is heavily grounded in the interactionist social psychology developed by such writers as Cooley, Mead, and Thomas. The emphasis on process and sequential analysis, the focus on self conceptions, and even the concepts relating to "career," all are drawn more or less directly from the work of this school. Indeed, the central notion that the societal reaction "produces" deviance is, in a way, simply a reworking of Thomas' well known dictum that "if men define situations as real they are real in their consequences."[17]

The following phrase, written by Howard S. Becker, has been most widely used to express the gist of labeling theory: "The deviant is one to whom that label has successfully been applied; deviant behavior is behavior that persons so label."[18] While it doubtlessly captures the essence of the labeling view, the statement was not intended to be taken out of its symbolic interactionist context and made the basis of a divergent theory. This opinion finds agreement in the observations of Lindesmith and Strauss:

> The emergence in sociological literature of what has come to be known as the "labeling theory of deviance" provides a curious example of the casual almost accidental way in which schools of thought are sometimes created. Howard S. Becker is regarded as the originator of the theory; in his writing, following some leads of Edwin Lemert, Everett Hughes, and other symbolic interactionists, he happened to use the terms "label" or "labeling" in a sentence or two in the course of describing the processes that lead to people being publicly viewed and defining themselves as deviants. Other sociologists

> picked up these words and they became popular "labels" for what often is taken to be a new theoretical system to explain deviant behavior.
>
> The labeling idea is actually an aspect of the naming process. . . . It also involves the idea of the self, the idea that individuals are both actors and observers of their own actions, and that they develop attitudes toward themselves from their interactions with others. These ideas have a long history in the literature of symbolic interaction. . . . What Becker was doing was not proposing a new theory but tracing out in specific detail the implications of his general orientation, which was essentially like ours and which is embodied in the general theoretical tradition of symbolic interactionist thought. To speak of the labeling "approach," "theory," or "school" does a disservice to the idea involved by separating it from the broader context of ideas in which it is embedded and to the image of man from which it stems.[19]

In utilizing the labeling approach as a guiding orientation in this work it has been regarded as an extension or elaboration on aspects of symbolic interactionist thought which address social deviance. However, this study as a whole may be considered an effort toward integrating labeling theory and symbolic interactionism since its line of attack, that of a naturalistic investigation, is directed toward improvement of the concepts and refinement of the analytical scheme it employs. A major purpose in undertaking this research is to attempt to identify and clarify some of the ambiguities and conceptual weaknesses in labeling theory where it touches on issues having to do with changes in self-concept. As one means of achieving that aim, a "grey area" of deviance was selected for study with the expectation that by presenting a stronger challenge to labeling explanations it may expose anomalies and logical inconsistencies seldom brought to light in studies of "straightforward" deviant behavior.[20] It also draws upon other pieces of research that deal with different forms of deviance but

appear to be addressing the same set of issues. Incorporating the findings and explanations of compatible studies into this ongoing investigation makes possible a more comprehensive analysis. At the same time this integrating effort encourages the reconvergence of labeling theory and the Meadian perspective from which it evolved.

Methods of Inquiry

The general methodological stance of this study which was discussed earlier derived from the theoretical assumptions of Meadian social psychology. It should be noted that there are different methodological approaches to symbolic interactionism represented by the several divergent views which share this common intellectual heritage. The two major variants are those of the Chicago school and the Iowa school. The latter perspective as developed by the late Manford Kuhn embodies modifications on symbolic interactionism so extensive that it has generally relinquished the conventional name of that orientation in favor of "self theory." The Chicago school, whose foremost exponent is Herbert Blumer, continues in the classical Meadian tradition and it is this representation of symbolic interactionist thought which has been adopted in the present research. The most fundamental point of divergence in these views is that of methodology. Kuhn's view calls for the operational definition of concepts and for a standardized and objective process of measuring variables toward development of a set of predictive testable generalizations; in general this view

seeks to "empiricize" the ideas found in Mead's writings. Blumer argues for a distinctive methodology in the study of human conduct characterized by a phenomenological as against an operational approach, the use of sensitizing concepts rather than the utilization of variables, and the importance of observation techniques which are appropriate to symbolic interactionist assumptions and which permit the investigator to know the inner world of those being studied by bringing him into close association with them. The flexible nature of the exploratory form of inquiry he advocates is not pinned down to any particular set of techniques; its guiding maxim is to use any ethically allowable procedure likely to provide a clearer picture of what is going on in a given area of social life.[21]

Participant observation is the principal method employed in this study but it is regarded as a multiple-method research strategy as Denzin has defined it:

> Participant observation shall be defined as a field strategy that simultaneously combines document analysis, respondent and informant interviewing, direct participation and observation, and introspection.
>
> In participant observation, interviews are typically open-ended; census data, when analyzed, are usually not a central portion of the research process but are used only to describe the characteristics of the population under study; and observation of ongoing events is typically less concerned with recording the frequency and distribution of events than it is with linking interaction patterns with the symbols and meanings believed to underlie that behavior. The method, when appropriately employed, entails a continuous movement between emerging conceptualizations of reality and empirical observations.
>
> Participant observation is one of the few methods currently available to the sociologist that is well-suited to an analysis of complex form of symbolic interaction.[22]

The several procedures used to gather data reflect the need for different kinds of data in each of the phases in this study. The description of the structural context of indebtedness is documented by census-type data, educational materials developed by the credit industry, and facts drawn from business and law library holdings; it is enriched by information obtained through informal interviews with lawyers and others in para-legal occupations, bank employees and persons in various credit-granting positions, counselors at credit counseling agencies, "credit specialists" interested in teaching and research in this area, and local retailers and businessmen. Knowledge of credit-granting and collection procedures was obtained from materials prepared by national trade associations for their member credit bureaus and for credit bureau clients, and by attendance at a credit seminar conducted by the International Consumer Credit Association. Valuable observational data were obtained during a period of full-time paid employment as a bill collector in a collection agency. This experience made it possible to acquire a broad stock of knowledge for understanding the practices of agencies which comprise the social-economic "credit world" and to inform the interpretation of documentary and interview data presented as evidence in other parts of the analysis; its main value was in providing the data needed to describe the workings of collection agencies and the interaction which takes place between debtors and collectors (a matter which persons other than debtors and collectors are likely to know very little about). In addition to observations as a participant in this interaction,

further data obtained for use in describing collection agency procedures include specimens of standard "dunning notices" sent to debtors, written communications sent to debtors exhorting them to pay, and responses written by debtors in return. Data on the art and practice of bill collection were also obtained in the form of publications and materials prepared by a national association of credit bureaus for use by their members' collection departments in training and guiding collectors in their work. Various other documentary materials such as house organs, newsletters to credit bureau clients, sample legal forms, and articles and advertisements in local newspapers were collected; these, together with field notes on personal experiences as part of a collecting organization, help to clarify and enrich this phase of the exploration. A set of unstructured interviews with debtors, mostly persons in serious financial difficulty, provides the main source of data for that phase of study which focuses on the debtors' side of the situation and attempts to describe what this experience means to them. Contact with these respondents was made through the help of debt counseling agencies who forwarded the request for an interview to their debtor clients. Those who agreed to be questioned supplied a telephone number and in this way data in the form of interview protocols were obtained from 44 (anonymous) default debtors. Partly as a device to overcome their reluctance to volunteer for interviewing, the appeal was submitted to them in the context of a mail survey questionnaire and made to appear rather more secondary. The questionnaire, which contained two attitude scales that had been

designed for a study of indebtedness among bankrupted debtors, generated additional useful data: attitude measures were obtained on 150 debtors (many of whom were later interviewed) which is comparable to the available response distributions on the bankrupt cases. In addition, 38 respondents contributed voluntary commentaries on their personal views and experiences as debtors when returning the questionnaires. The discussion which follows will include more detailed descriptions of the nature of these various sets of data, where and how they were gathered, and in what manner they are treated in the analysis.

The Research Setting

The research for this study was conducted in a middle-sized city in the southern part of Michigan which shall be given the fictitious name of Meridian.[23] One of Michigan's five largest, the city is a center of marketing and commerce for the three-county rural agricultural area surrounding it. The population of this area (Meridian SMSA) is approximately 400,000 with about a 70% concentration in the metropolitan area, but more than a third of the outlying area labor force finds employment in the city. Because of the diversity of its economic base, Meridian offers exceptional stability and promise for its working population. It has some 200 manufacturing establishments, including several large industries whose activities are directly related to the production of motor vehicles, and these manufacturers provide jobs for thousands of industrial and white-collar workers. Another large segment of the

area labor force is supported by the payrolls of federal and state government offices and institutions and a large state-supported university located near by. The range of employment opportunities available to the people who live around Meridian can be seen by the occupational distribution of its workers. According to 1972 census data, 95% of its labor force is employed. Of these 150,000 workers, 9.1% have industrial occupations; about one-fourth in manufacturing, 19% in wholesale and retail trade, 16% in educational services, 5.8% in construction work, and 5.8% have business, repair, or personal service jobs. Approximately half of the employed workers have white-collar occupations, evenly split between sales and clerical work and positions of a professional, technical, or managerial nature. Government jobs account for 26.5% of the workers, and the remaining 13% are counted as craftsmen, foremen, or kindred workers.

On the whole, Meridian's residents comprise a relatively advantaged community. According to 1970 census figures, this area ranked 27th in the nation in median family income size; over half of its families earned between $10,000 and $25,000, and only 13% had incomes less than $5,000; the median family income as of 1970 was $11,211. In terms of per capita income, Meridian ranks high among American cities of similar size; comparing its per capita income with the dozen or so SMSA's which have about the same population, only Bridgeport and New Haven, Connecticut, and West Palm Beach, Florida, had higher per capita incomes; among the others (including Harrisburg, Pennsylvania; Davenport, Iowa; Canton, Ohio;

Charlotte, North Carolina; Wichita, Kansas; and Tucson, Arizona) incomes ranged as much as one-third less than the $3,343 figure for Greater Meridian residents.

A general picture of the character of the Meridian area population can be drawn from aggregate data reported by the U.S. Census Bureau: 1970 figures pertaining to Meridian as a Standard Metropolitan Statistical Area show that its inhabitants number 378,423 and its racial mix is 94.7% white, 3.6% black, and 2.2% of Spanish heritage. About 31% of the people live outside the urban area; the population is fairly young, with a median age of 23.4 years, and it is evenly divided by sex. Close to two-thirds of the people over 25 have a 4-year high school education or more. There is some indication that Meridian residents share the good life obtainable by American consumers: of the 111,000 housing units in the area, 70% are owner occupied and the median value of such units was approximately $18,000 in 1970; 94% of the homes had telephone services, 22% were air conditioned, 33% had home food freezers, and 92% of the occupants owned at least one automobile.

Not all of the Meridian area families are so fortunate, of course. On the negative side may be cited the 6% whose income falls below the poverty level, and many of these 5,500 families rely on public assistance programs to meet their essential needs. Another 22,000 are recipients of the ADC Program (Aid to Dependent Children), including some of the 6,000 families with a female as head of the household, and these families with growing children depend largely upon assistance checks averaging only $240 a month.

In addition there were, in 1970, some 5,300 persons in the urban area labor force (closer to 8,000 if the outlying areas are included) who were unable to find work, a problem which became more widespread in the recession period of 1974-1975 when the unemployment rate rose above this level of 5%. On the whole, however, the situation is not like that in Detroit; Meridian does not have persistent hard-core poverty concentrated in an urban ghetto. Although their difference in size must be considered, it is meaningful to compare the incidence of poverty in selected areas of the two cities: in 1970 there were 31,600 families in the Detroit inner-city and 840 in the comparable area of Meridian; at the same time Meridian had almost 500 rural farm poverty-level families as against 300 outside Detroit.

Since all of these figures pertain to economic aspects as they existed in 1970, the most recent year for which extensive census data are available, they do not reflect the income and cost of living levels prevailing in 1974-75 when this research was under way. The problems of inflation were felt in Meridian as they were across the nation and the economic slump of that period brought hardship to a great many families. On the other hand, certain factors in Meridian's economic picture served to lessen the impact of these conditions; for example, the union ties of many workers and union wage contracts with employers helped to keep earnings somewhat in line with living costs and many unemployed industrial workers were able to cope with the extended layoffs in 1975 with the help of supplemental unemployment funds added to their government jobless

benefits. The general effect of the recession was not in fact as severe or long-lasting in Meridian with its diversified economy as in other Michigan cities which rely more fully upon the auto industry payrolls. This general picture of Meridian in the recession period is seen in a story carried by the local newspaper in February, 1975: a staff writer, reporting interviews with several bankers, the credit bureau manager, a debt-pooling agency counselor, and the Sears store credit manager, wrote that "inflation and recession can be a dangerous combination for the field of credit but the situation in [Meridian] is 'not all that bad,' according to the people who should know." The reporter's informants had noted some slowing in debt repayment and savings, but they had seen no significant increase in delinquencies and one bank loan officer claimed he was receiving the same number of Master Charge Card applications as he had the previous year.

From this general information one might construct an image of the Meridian residents who are of concern in this study. It would see him as stable and relatively prosperous. As a worker or housewife native to the area with long-standing friendships and strong family ties, he has roots in the community. His job offers promise in the lines of seniority or civil service and while it may be uninspiring work at a desk or assembly line, it pays well and permits him to own a car and recreational equipment for enjoyment in his leisure time and to finance a home of his own with comfortable furnishings and labor-saving conveniences. When strikes or lay-offs bring hard times he has some savings to fall back on

and he can cut his discretionary spending to keep abreast of necessities. His work friendships and family ties are supportive when things are bad and they can usually be counted on for some form of material help, if only as co-signer to get a finance company loan to meet instalment payments on his car or appliances. The image one has of the great majority of Meridian people is not that of the rootless transient worker or the hopelessly impoverished; it suggests instead almost the stereotype image of the "apple pie American"--a hard-working, stable family man or woman aspiring to obtain the things he wants in order to enrich his everyday life and to make him feel he is getting ahead in the world.[24]

Participant Observation: Access and Setting

However legitimate his reasons for making inquiry into the nature and practices of agencies involved in credit granting and debt collection, it is very difficult for persons other than those having a specific business connection with them to learn about their operations directly from these agencies. The educational divisions of the several trade associations in the credit industry provide a wealth of material designed to inform the public about the services it supplies to consumers and businesses and the importance of its role in the economy, and this information is made readily available to inquiring outsiders but, since it is oriented toward building good public relations, this material describes credit agency activities in very general and euphemistic terms and stresses their positive aspects. Prompt offering of such prepared literature,

which is designed to be helpful to people with only a casual or superficial interest, serves also to divert the persistent inquirer who is seeking a deeper understanding of the actual workings of the credit system. A social researcher is met with courtesy and provided with ostensibly informative pamphlets, but he is made to see that his request for a glimpse inside the credit world may not be granted because that would violate the trust and secrecy which must be maintained. The entire area of credit and credit management is characterized by the great importance of confidentiality.[25] Infiltration of the credit world in the role of collector was not a deliberately planned research strategy; when an employment opportunity presented itself I accepted the job and was thereby made privy to it. By working as a collector I experienced first hand what goes on in a collection agency and this enabled me to gain some understanding of how the larger credit world operates.

The site of my observational activity was the collection department which is operated by the Greater Meridian Credit Bureau.[26] While in many respects it is typical of most credit bureaus, the collection department of the Meridian Credit Bureau (MCB) provided an extremely rich setting for my research in that it contains as broad a mix of elements as may be found in any one such agency. Important among these aspects are the following: this bureau is located in a state whose laws permit wage garnishments and in an urban area where employment on an hourly wage basis (as in manufacturing industries and white-collar jobs) lends itself to the use of this device for collection. Although its services cover much of

the Greater Meridian area, it is not a huge impersonally organized operation; I was able to observe the procedures of most of the other employees. The entire staff numbers less than 20, including 6 collectors; I was well accepted among them and learned a good deal through informal conversations during our breaks. The department manager, a man who has spent his entire working career in this organization, knows the community and the credit business intimately. Because of this long experience his style of office management involves very active participation in every part of the department's collecting activities. The MCB maintains a contractural arrangement with a local law firm which provides legal advice and staff services, and with this professional assistance the department manager routinely carries out collection procedures involving legal action and court appearances. For the collector (employee) it thus becomes very simple, literally a rubber-stamp procedure, to have court action brought against debtors, to start suit, obtain a judgment, and accomplish enforcement of the judgment by ordering garnishments or execution upon debtors' property. These strategies are made easy for MCB collectors to use because they have ready access to the files of the credit-reporting department which operates as a separate but closely integrated function within the bureau's structure. The information contained in these records is helpful in locating and identifying debtors; it includes his residence address, employer and social security number, pieces of information without which a summons cannot be served or a garnishment order initiated. This is a most useful facility for MCB collectors

and one which is not available to independent debt collecting firms. The Meridian Bureau is affiliated with a national trade association which extends and augments both its reporting and collecting services; through its membership in a national association collection accounts may be transferred to another collection department in a distant city should the debtor move away from the area. This feature is a great help to collectors as a means of "skip" tracing--tracking down debtors who may have tried to avoid paying by changing their place of residence.

Although some credit bureaus are merchant owned, the MCB is a private enterprise and its procedures are designed to earn a profit through the services it provides its members and subscribers. Many credit bureau members are also clients of its collection department but it accepts collection accounts from other local businesses as well. Its client roster includes a wide variety of enterprises--smaller retailers, newspaper advertising departments, employment agencies, telephone and utility companies, and many others, but the largest volume of overdue accounts are submitted by hospitals, doctors, and medical laboratory services. Obtaining payment from debtors on behalf of these clients results in a return to the department of commissions usually ranging from 30-50% of the amount collected, not an exhorbitant amount in view of the fact that such accounts have already been "worked" by the creditor and written off in his ledger. For the collection agency the task is clear: to be a profitable enterprise operating expenses must be controlled and collection income must be maximized and, as in any

labor-intensive operation, this means that time is a resource to be used effectively and employees must get the job done efficiently and unceremoniously. In short, the collection department aims at getting debtors to pay and in so doing is careful about working within the law but little concerned with amenities or with the personal circumstances of debtors; this sentiment is conveyed to collectors both by direct exhortation from the manager and through its wage structure. Collectors are paid commissions on the amount collected over a basic quota and this incentive proves effective since the hourly wage is minimal and personal recognition of their performance is evaluated solely in terms of daily collection receipts. The period during which I worked as a collector, from late August 1974 to March 1975, coincided with the economic slump which was especially felt in the Michigan area and made the job of coercing debt repayment somewhat more difficult; in Meridian this was compounded by the declining viability and eventual bankruptcy of one of its traditionally important industrial employes. (It should be noted that the bills in question had been incurred several months earlier; the recession contributed more to difficulty in payment of old debts than to creating the indebtedness and it is believed that the adverse economic conditions of this period do not materially affect the sociological significance of the issues under investigation in this study.)

My experience as a collector, although limited by time constraint, was as full participant and was virtually free of "contamination" as a result of attribution to me the identities

as a sociologist or researcher. These identities were unknown to my co-workers and ostensibly unrecognized by my employer. Although both the credit department manager and the bureau's general manager knew of my academic interests from an earlier contact with them (at which my request for an opportunity to learn about the bureau's functions as an observer had been denied), no mention of this interest was ever made and no special treatment was accorded to me in any way in the course of my daily work.[27] This benefited my research since it enabled me to observe and participate in office activity first hand without mitigation, as may have been afforded otherwise. At the same time, occupying a total role as employee was something of a disadvantage in that I was unable to take detailed on-the-spot field notes of my observations and interactions with individual debtors. While this is explained in part by the lack of time due to work pressures and the need to avoid revealing my alter-role to the other employees, it is also attributable to the demanding and repetitious nature of the work itself. Since detailed field note-taking was precluded, I found an adequate substitute in preparing summary notes of my experiences and impressions at frequent intervals and these provide a generally accurate characterization of the daily routine activities of which I was a part.[28]

Gathering of Questionnaire and Interview Data

Access to personal information about individuals who are in financial difficulty is no less difficult to achieve than is access

to information about credit institutions, particularly when it is important to obtain that information directly from people who are presently in debt and when the knowledge sought involves their private feelings and emotions. It is very difficult to broach the matter of personal financial circumstances with <u>any</u> person so it is not surprising that, given the stigma of debt default and often a practical need to conceal information that might be of use to creditors, data of the kind needed in this study were not easily available.[29] I was able to make contact with a sizable group of persons who were subjects of the debt enforcement process in the Meridian area through the cooperation of two debt counseling agencies. These agencies are described more fully in the chapters which follow; in brief, the services they offer troubled debtors include preparation of budgets, negotiating with creditors for extending payment terms, and making prorated payments on their various debts out of earnings turned over to them by their debtor clients. The agencies with which I worked are the two prominent ones in Meridian. One is a privately owned firm which I will refer to as Debt Management Service, Inc. (not its real name) and the other is one of 14 branches of the CCC (Credit Counseling Centers), a state-wide nonprofit service financially supported by local business and industry. Each of these agencies agreed to address and mail out to their clients the instrument and accompanying return envelope (self-addressed to me) which I had prepared. The CCC sent copies to about 300 persons (their usual case load exclusive of clients on welfare) and Debt Management, which has a case load of

about 150, sent them to all present and past clients for whom they had current addresses. The number returned equals about one-third of the normal combined case load of the two agencies (N = 152 in all).

My intent in preparing a form for mailing in this way was to locate debtors who would voluntarily (if anonymously) communicate with me. Contact could only be made indirectly through a third party who was privileged to know both their financial situation and identity, since it is impossible to locate troubled debtors among the general population and a researcher is not legally or ethically free to address as such a person whom he knows to be in debt unless it has become a matter of public record.[30] It was originally expected that I would submit my request to the counseling agency clients in the form of a letter asking their permission to be interviewed but, while the agencies were willing to help put me in touch with their clients, the counselors who work with these people felt that debtors would be reluctant to volunteer as interviewees in response to a direct request. They felt certain that some specific questions put to them in the manner of a survey form would be less likely to arouse their suspicion (as one counselor put it, "They're gun-shy!"). At their suggestion I altered my direct request for an interview and instead prepared a questionnaire which included two attitude scales and made this appeal appear secondary. Evidently their advice was good since I received a much higher rate of return than they or I had expected; in addition I obtained a set of 152 responses to the attitude scales which provided further useful data.[31]

A reduced reproduction of the questionnaire may be found in the appendix. Its design elicited three different forms of data: the main body of the questionnaire consists of two scales, one measuring Attitude of Responsibility for Debt Payment and the other designed to tap Blame Projection (blame for the indebtedness situation). Following the scale items, at the bottom of the questionnaire, the respondents were invited to write voluntary remarks and at this point I posed a request for them to supply a means of contacting them personally. To help overcome their reluctance and possible suspicion, the request was so worded as to emphasize my openness and assurance of their anonymity. It appeared as follows:

> WOULD YOU BE INTERESTED IN SHARING WITH ME ANY EXPERIENCES YOU MAY HAVE HAD IN CONNECTION WITH YOUR OWN USE OF CREDIT? It would be very helpful to consider your views in this study and anything that you let me know would be regarded as completely confidential--in fact you don't even need to give your name. If you would be willing to assist me in this way, please indicate how we could get in touch with one another (either by phone or in person). Write your phone number or address below if you'd like to have me contact you. If you prefer you can call me--my number is. . . .

In response to my invitation to write comments or suggestions, commentaries ranging from a few lines to several pages were contributed by 38 persons; these remarks related primarily to their experiences as debtors or gave explanations for their predicament. In response to my request for a means of making contact with respondents, 55 persons supplied a telephone number and only 10 gave addresses instead (these mostly out of town), making it apparent that telephone interviews were preferred. Of the 55 numbers, 8 were not usable (3 false numbers, 5 disconnected); of the remaining 47, I

was able to reach all but 3 of the respondents. Thus I conducted 44 unstructured interviews by telephone with anonymous persons on the subject of their personal experience as debtors.

The respondents from whom these data are drawn represent at best an illustrative sample of debt counseling agency clients; as volunteers they introduce bias, undoubtedly representing the more open and articulate, the less suspicious and fearful among debtors. They do, however, portray persons who are presently in serious financial trouble or have recently begun to recover from this kind of problem; that is, they are definitely distinguished from the general American public for whom the use of credit resulting in "current indebtedness" (e.g., 30-day charges not past due) is a common event in their daily life as consumers. On the basis of studies dealing with debt counseling agencies, there are certain characteristics known about agency clients in general: according to facts taken from state-wide reports of the CCC and from the findings of a national survey of counseling agencies, the typical client is a 35-year-old wage earner with 4.4 children; he earns an average annual income of $6,000 and owes about $4,500 to 8.9 different creditors.[32] Since my respondents were anonymous persons to me, and no attempt was made to obtain this kind of information from them in the interviews, the extent to which my respondents as a group reflect these characteristics is unknown. One fact pertaining to these persons which is of important theoretical relevance in this study can be deduced from their identification as debt counseling agency clients; by virtue of their status as clients they

are or have recently been deeply in debt or they would not have sought help from these agencies. They may be regarded as "paying" debtors because agencies do not accept as clients any person who is financially incapable of making payment even with the aid of counselors; they have not deliberately tried to flee their debt obligation nor have they as yet opted to forego further effort to make payment of their present debt load by filing for bankruptcy. This means that they have, at least in principle, certain other alternatives open to them as solutions to their debt problem but for the time being they have elected to try to resolve their difficulties by voluntarily engaging the services of debt counselors.

The attitude scales which were included in the questionnaire sent to these people were designed for use in a study of the causes of bankruptcy conducted by H. Lee Mathews (1969). Along with other explanatory variables, including income and debt structure and various personal and social characteristics of the bankrupted individuals under study, he considered "absence of a feeling of responsibility about debt payment" as a causal factor in explaining why they had become financially insolvent and voluntarily had themselves declared bankrupt. Mathews' thinking that the degree to which debtors hold a "responsible attitude" about paying debts might be a cause of bankruptcy is straight-forward: "It was believed that if a responsible attitude were lacking on the part of an individual he would feel less moral obligation to repay his creditors."[33] The second scale measures Blame Projection among persons in default. In designing this instrument Mathews reasoned as follows:

> Sociologists have observed that individuals who are involved in behavior that deviates from the norms of society sometimes tend to blame other persons and things for their offenses. Those individuals, it has been shown, are more difficult to rehabilitate because they fail to accept the burden of responsibility for their own situations. The tendency to relate the blame to other persons or conditions beyond their control may exist among bankrupts. If they do not accept the blame, then the present Bankruptcy Act, which is partially aimed at rehabilitating debtors by giving them a fresh start, may not be meeting its objectives.[34]

Although the appropriateness of Mathews' scales to this research is apparent, even in terms of the sociologically oriented rationale upon which they are built, his study as a whole is atheoretical applied research answering to the concerns of the commercial sector; it was not included among the literature reviewed because it utilizes sociological thinking only to augment his design of these attitude scales. Mathews administered both scales to a sample of 118 persons who had recently been granted discharge in bankruptcy and to a control group of similar size for comparative analysis. The distributions of response scores together with comparisons between the groups in terms of descriptive statistics are presented in his research report. He also provides a detailed explanation of the system he used for scoring those responses, thus enabling me to score the responses of my group of subjects by the same system. Score distributions and mean scores obtained on 149 debtors who are counseling agency clients may be evaluated in comparison with the distributions and means obtained on bankrupt and control group respondents are reported by Mathews. It is important to note that these scale data are not regarded as having primary value in this analysis; although they are relevant and relatively precise,

comparisons between loosely conceived "groups" with many undetermined characteristics may not be regarded as strong evidential matter but they contribute to a better understanding of cognitive aspects of the indebtedness experience nonetheless. The major importance of this material lies in the fact that it permits comparisons to be made between persons who are involved in an ongoing indebtedness career and persons who have exited that career through bankruptcy in terms of the same kind of data. Since many of the respondents to the questionnaire were later interviewed, the deeper feelings beneath the attitudes they expressed could be probed. This strategy serves to link overt and covert symbolic behavior, enriching both the attitudinal data and the study as a whole.

The questionnaire mailings had gone out from the agencies between mid-December and late January, 1974-75; in late April, when the flow of returns diminished, I began calling these men and women volunteers. The 44 interviews were conducted and recorded over a period of three weeks. The sessions ranged from 20 to 75 minutes, but most of them were just under an hour in length. Although they were unstructured interviews and no formal questioning format was used, I attempted to standardize my approach to the interviewees and direct the course of conversation so that generally the same areas would be included with each person. During the course of the interviewing period new insights tended to emerge which suggested new lines of inquiry; thus the content of the interviews changed somewhat as these lines of thought were developed. In the main, however, I sought to touch upon the following issues in every interview:

(1) the experience of being in debt; what made the respondent aware that debt was becoming a problem and how or when he thought his difficulties began. Much of this information emerged from my opening remarks to the respondent: I reminded him of the content of the questionnaire as a way of introducing the delicate subject of discussion--his debt default. The Blame Projection Scale, which employed an indirect approach, had been put to the respondent with the request that he "put himself in Joe's shoes" as he decided for or against agreement with each of the scale items; he was asked to imagine Joe as a friend who has a wife and family and earns average hourly wages at a local plant. "Things aren't going so well for them lately and, for many reasons, they haven't been able to keep paid up on their bills." Having been called upon to consider how "Joe" feels about his trouble and who he blames for it, these debtors strongly identified themselves and their situation with this hypothetical case. Recalling Joe's financial problem served not only to open the subject and establish rapport, but added depth and enrichment to the scale responses already in hand. (2) The notion of "accounts" was embodied in the remarks volunteered by most debtors who, cued by their own thoughts about "Joe," were eager to express explanations for their own troubled situation (their reasons, justifications, excuses, motives). (3) This line of talk easily turned to debtors' recollections of events which they identified and described as crises (turning points in their career as debtors); here many persons went on to relate difficulties with collectors and creditors, family and personal problems and the like,

revealing their feelings of conflict, anger, defeat, guilt, resentment, awareness of stigmatization, and their efforts to cope with them. (4) These expressions led readily to debtors relating their experiences in exploring and selecting among alternative solutions to their problems; they gave accounts of how they came to consider debt counseling and described the changes in their feelings about receiving help in managing their personal money affairs. Most debtors explained what alternative solutions to their problem had been considered and why certain ones had been rejected; many volunteered their views about bankruptcy and the possibility of turning to the court for relief and how they might feel in that event.

The interview protocols obtained in this phase of data collection together with the written communications received from debtors constitute the basis for the exploration which attempts to depict the debtor's world as he sees it. That phase of analysis is undertaken only after the structural context within which it is constructed and given meaning has been explored; this is the initial focus of investigation, the endeavor of the chapter which follows.

FOOTNOTES

[1]In general, the questions and issues addressed in this body of literature have been largely defined by the concerns of the business community and, while adequate within that sphere of interest, they do not answer to the issues raised from a sociological perspective.

[2]David Caplovitz, 1974, p. 9.

[3]Paul Rock, 1973, p. 2 (italics in original).

[4]Rock's research was conducted when imprisonment for debt was still possible in England under the Debtors Act of 1869. New legislation which became effective in 1971 substituted attachment of earnings for the older sanction of imprisonment.

Although the existence of debtors prisons suggests that punishment for default is more severe in England than in America, this is not the case. Means for coercing payment are much harsher in this country. Most likely this is related to the more restrictive credit-granting policies prevailing there. While credit is easily obtained by employed persons in all walks of life in the United States, the extension of this privilege tends to be limited to the fairly well-to-do in England; small infractions by credit users, such as the delayed clearing of balances, are typically treated by creditors with an air of deference only a celebrity would be accorded in this country. Differences in the systems of bankruptcy in the two countries also reflect these contrasting credit policies; in England there is no standard recourse to bankruptcy while here it is relatively easy and inexpensive to obtain a discharge voluntarily and it is thus a very common event.

Despite these differences in content and the inexact parallel between the specific institutions in the two countries, I utilize the general idea which Rock has developed, viz., that the various agencies which handle consumer credit, debt, and default are serially linked and constitute an integrated system of social control.

[5]Paul Rock, 1968, p. 179 (emphasis added). The idea of transformation of identity as a consequence of labeling by the debt enforcement process is a major theme through Rock's major work, Making People Pay. This is clear in his opening remarks: "This book . . . documents the manner in which social deviancy is managed so that few defaulters undergo significant transformations of identity. In Lemert's terminology, it is a study of 'primary deviation.'" Paul Rock, 1973, Preface, p. ix.

[6]Herbert Blumer coined the term "symbolic interactionism" in 1937 and it has since come into general use in referring to the approach to the study of human conduct and group life which developed

out of the thinking of George Herbert Mead and the work of other scholars who contributed to its intellectual foundation--notably John Dewey, Charles Cooley, William James, Charles Peirce, W. I. Thomas, Robert Park, Louis Wirth, Everett Hughes, and Herbert Blumer. Blumer has explicated the "root images" which characterize this relatively distinctive approach and this paragraph represents his summary of these basic ideas. Herbert Blumer, 1969, pp. 6-21.

[7]Norman Denzin, 1969, p. 926; 1970a, pp. 452-54; 1970b, pp. 6-9. The foregoing summary represents a composite of Denzin's statements on methodological considerations implied in interactionist theory as set forth in these writings.

[8]Herbert Blumer, 1969, pp. 138 and 177.

[9]Norman Denzin, 1970b, p. 6.

[10]These words appear as a formal Statement of Position in the opening paragraph of the social psychology text (3rd edition) which is commonly recognized as the major statement on human behavior according to symbolic interactionist theory. Alfred Lindesmith and Anselm Strauss, 1968, p. 3.

[11]Blumer describes the aims of exploration and inspection and explains what is involved in carrying out these procedures in his papers on the perspective and methodology of symbolic interactionism. (See especially Blumer, 1969, pp. 40-47.) The present discussion has drawn on this statement by Blumer of the methodological position of symbolic interactionism.

[12]Important among alternatives available to persons deeply in debt are resort to straight bankruptcy which means legal forgiving of most debts and proceedings under Chapter XIII of the Bankruptcy Act which provides court protection and extended time for making repayment. Another alternative open to debtors in some states is to engage the services of a debt pooling or credit counseling agency. More information about these devices provided by the Bankruptcy Act and about counseling agencies will be found in Chapters 3 and 4.

[13]This assumption is based on the labeling orientation and reflects Becker's widely quoted remark: "Social groups create deviance by making the rules whose infraction constitutes deviance, and by applying those rules to particular people and labeling them as outsiders. Deviance is not a quality of the act the person commits but rather a consequence of the application by others of rules and sanctions to an 'offender.' The deviant is one to whom that label has successfully been applied; deviant behavior is behavior that people so label." Howard S. Becker, 1963, p. 9.

Becker suggests that one consequence of viewing deviance in this way is that "we become much more interested in the process

by which deviants are defined by the rest of society. We do not take for granted, as has sometimes naively been done, that a given action is deviant because it is commonly regarded so. Instead we look to the process by which the common definition arises." Howard S. Becker, 1964, pp. 2-3.

Rock also applied labeling theory in developing his conceptualization of the collection process as the source from which a deviant definition arises.

[14]This phase of the study builds on elements of the assumptive framework developed by Rock which we have outlined earlier. The rationale for integration of his work is explained at the end of the section in which the literature is reviewed.

[15]Gresham Sykes and David Matza, 1957, p. 669.

[16]See Stanford Lyman and Marvin Scott, 1968, on "accounts" and C. Wright Mills, 1940, on motivation from the perspective of a sociologist. A discussion of the relationship between these concepts, the manner in which they are viewed by symbolic interactionists, and their importance in an investigation such as this one is presented in the prefatory remarks to Part 8, Motives and Motivation, by Stone and Farberman; these and several other relevant papers are also reprinted in that chapter. My views are in accord with those expressed in this literature and it has guided my general conceptualization and treatment of materials in this area. Gregory Stone and Harvey Farberman (eds.), 1970, pp. 467-509.

[17]Edwin Schur, 1969, p. 318. It should be noted that labeling "theory" is not generally regarded as a theory in any rigorous sense. Gibbs views it as a "conception" and Schur, using the terms theory, conception, orientation, perspective, and approach interchangeably, has said, "Because of its lack of clear definitions and its failure to answer certain major questions, and because it does not consist of or clearly indicate a set of interrelated propositions and testable hypotheses, it may be charged that the reactions analysis does not, strictly speaking, constitute a theory." Ibid., p. 316.

[18]Howard S. Becker, 1963, p. 9. This phrase has frequently been taken as a definitional statement, leading often to misdirection if not misunderstanding of the aim of the labeling orientation as an explanatory device. (See Peter Manning, 1975, p. 2.)

While the origin of labeling theory is commonly attributed to Becker, its development came out of writings which predate Becker's as well. Earlier contributions to labeling views were offered by Tannenbaum (1938), whose discussion of the "dramatization of evil" recognized the impact of stigmatization in generating deviant careers, and Lemert (1951), who laid much of the basis for the current labeling approach in his effort to work out a more systematic theory of "sociopathic behavior" in which he related

deviance to processes of social differentiation and social definition. The works of Kitsuse (1962) and Erikson (1962, 1966) are frequently cited as representative of this school of thought and many others have added to building a large body of literature in the area of deviance as a product of societal reaction.

These writings also include a number of critiques; some, from a Marxist standpoint, reject many of the fundamental premises of labeling theory (see Taylor, Walton and Young, 1973, and Quinney, 1974). Others, such as Warren and Johnson (1972), take issue with the labeling formulation from a phenomenological perspective. Manning has identified some of the numerous critical commentaries which have "a fairly sympathetic cast." These, to name a few, include the writings of Davis (1972), Gibbs (1972), Lemert (1972, 1974), and Schur (1969, 1971). In general these represent the constructive criticism of the thinkers "who accept the centrality of the concepts of symbolically ordered interactional process, the import of agents and agencies of social control, and the focus upon fine adjustments of the self to alterations in transactions." Peter Manning, 1975, p. 3.

[19]Alfred Lindesmith, Anselm Strauss and Norman Denzin, 1975, pp. 533-34.

[20]The literature contains many calls for clarification in labeling theory, among them the criticism voiced by Rogers and Buffalo that it overemphasizes the stigma of labels and thus implies bias in viewing the labelee as overly passive. Joseph Rogers and M. D. Buffalo, 1974.

Schervish, speaking to the same point, links this weakness in labeling theory to the failure of its devotees to take into consideration the broader structure of ideas from which it derives. "With such an emphasis upon the creative yet social character of man, it is strikingly ironic that labeling theorists often neglect their Meadian heritage by speaking of man in a rhetoric more evocative of the determinism Mead sought to deny." Paul Schervish, 1973, p. 47.

Liazos supports the charge we are making here, that much of deviance research, caught up in the intricacies and excitement of a particular micro world, is unconcerned with advancement of theoretical issues in sociology. As Liazos puts it, emphasis in studies of deviant behavior has been mostly on "nuts, sluts, and perverts." Alexander Liazos, 1972, pp. 103-106. These and other criticisms are answered directly by this study.

[21]My remarks concerning the fundamental differences in the two major approaches to symbolic interactionism are based upon the comparative analysis of the so-called Chicago and Iowa "schools" to be found in Bernard Meltzer and John Petras, 1970, pp. 5-14.

[22]Norman Denzin, 1970b, p. 186. The more conventional view of participant observation defines it mainly in terms of the observing and recording activities of the investigator in a social situation (cf. Morris Schwartz and Charlotte Schwartz, 1955, p. 344).

A special section devoted to this mode of study in Urban Life and Culture 3, October, 1974, contains papers which describe and illustrate the use of qualitative field procedures written by sociologists who have used them. My strategy is modeled after this view. See John Lofland, 1974.

[23]Because of the confidentiality surrounding all aspects of personal credit and indebtedness, the identities of the research setting community and all persons and agencies in that community referred to in this study have been disguised and given fictitious names.

[24]The research for Chinoy's study of auto workers was conducted in a very similar Michigan community. In his investigation of the ways in which workers' aspirations are reconciled with the American "tradition of opportunity," he noted that workers whose jobs offered limited opportunity for advancement tended to transform the meaning of ambition and achievement into the acquisition of material possessions; a worker would see himself as "getting ahead" because he was working towards a "nice little modern house." Chinoy commented, "Advancement has come to mean the progressive accumulation of things as well as the increasing capacity to consume. The achievement which most clearly betokens advancement by purchase is home ownership. . . . If one manages to buy a new car, if each year sees a major addition to the household--a washing machine, a refrigerator, a new living-room suite, now probably a television set--then one is also getting ahead." Ely Chinoy, 1955, p. 126.

[25]Credit bureaus obtain credit application details and ledger information from credit granters in the community who are bureau members. They then make this information available upon members' request in the form of a credit report on a given credit applicant. Since this report is a record of the trade experience of credit granters doing business with a particular consumer, the importance of confidential handling is obvious. Divulging such information to anyone other than those who have a legitimate business need for it in connection with a business transaction involving the consumer would at very least risk jeopardizing the relationships between the bureau and its credit granter clients and between its clients and their customers.

[26]In addition to the specific credit reports it prepares upon request by individual credit granters, credit bureaus make a wide range of other services available to their clients and subscribers. Supplementary services include bulletins and reports prepared for general use and sold on a subscription basis. These contain items of information taken from public records, lists of

moves in and out of the city obtained from moving companies and utilities and other general information of interest to credit granters. Bureaus also provide collection services; most supply series of collection letters for use by members' credit departments and many bureaus offer clients the services of "professional" collectors.

Many credit bureaus belong to nation-wide trade associations. One such organization, the Associated Credit Bureaus of America (known as the ACB of A), is described in the credit management text by Cole and Hancock: "It offers its member bureaus such benefits as inter-bureau reporting rosters, standardized reporting forms, trade publications, national advertising, educational services, credit bureau research, special information reporting services. . . . It also serves its members through the affiliation of collection service offices which can be called upon for personal collection effort to collect unpaid consumer accounts. Likewise this Collection Service Division may help in locating any 'skip' debtor of a local credit granter." Robert Cole and Robert Hancock, 1960, p. 224.

[27]In previous years it evidently was possible to obtain credit information on individuals from bureau files as did H. Lee Mathews, for example, who had access to reports at the Columbus, Ohio, Credit Bureau for his doctoral research in the 1960s. During a telephone conversation with Mathews, I inquired about this and he indicated that recently enacted legislation had made confidentiality of these materials much more tight and such access could not have been gained at the present time.

I had visited the Meridian Credit Bureau as a researcher prior to my employment there and was given only some very general information from the bureau's general manager; the head of the collection department refused my request to learn of credit matters by observing in the department and declined to give me any information about its procedures. Shortly thereafter I responded to a blind help wanted ad which led to a job interview with this same man. Although we discussed the confidential nature of the work and my student status and research interest, the latter concerned him much less than the fact that I fitted the job requirements perfectly in terms of age, sex, previous work experience, and willingness to accept the low wage. Once I began work my role as sociologist was never mentioned again. (See H. Lee Mathews, 1969, p. 12, for his account of the Columbus Bureau's cooperation in his research efforts.)

[28]I later learned that Cicourel had had a similar experience in researching his study of the juvenile justice system. Participating openly (he served for a time as a probation officer), he "came to feel 'close' to the 'inside' details of day-to-day activities, jealousies, power conflicts, dissatisfactions with the job, the promotion system, and the like." Without such direct contact

he doubted "if the detailed operations of day-to-day police and probation work could be observed in anything approaching what could be termed their 'normal' work environment. The fact of being present in an office day in, day out, busy with paper work but privy to every conceivable kind of case, interaction, (etc.,) provides the researcher with an invaluable perspective on the everyday character of law enforcement. But it also exposes him to the danger of taking it all for granted in the same way as officers do. . . . I found it impossible to continue to take notes after each day of participation or observation because the repetition was boring, and it was not possible to record all of the innumerable details of actions scenes. The scene moved too quickly. . . ." As an alternative, he presents verbatim written reports, notes, transcripts of conversations, and similar materials which are "intended as routine and characteristic instances of all day-to-day communication, decision making activity of the organization, or 'what goes on all of the time.'" Aaron Cicourel, 1968, pp. 107-72.

[29]Deviance research invariably finds access to theoretically relevant cases difficult and random sampling impossible but information can be obtained which has value for work in this area inasmuch as theoretical development is often its principal aim (cf. Howard Becker, 1970).

[30]Names of debtors are made public when a judgment against them is obtained in court or when they file bankruptcy petitions and these public records have been used to identify subjects for research in every study of indebtedness known to me. Caplovitz, for example, obtained subject lists from court docket books and Mathews and many others worked with persons who had been publicly declared bankrupt. (Rock interviewed some debtors who were inmates in prison where they had been sent for nonpayment of debts.) The main disadvantages of this practice for the present work are these: first, the debtors under study are necessarily in a late stage of indebtedness and thus have only a limited number of alternatives still open to them. In addition, the time required for debts to become sufficiently delinquent to merit these measures, and for legal processes to be completed, results in a considerable time lag between subjects' "active indebtedness" experience and the point at which contact with them can be made. It is important to this study that the debtors be interviewed while still in an ongoing debt career and the experiences they describe relate to a situation which is current.

[31]A brief cover note accompanied the questionnaire which lent credibility to my overture by offering to verify that it was a research inquiry sent out on my behalf by the agency and with its approval. The note was worded as follows:

> Mr. (MANAGER'S NAME) of (NAME OF AGENCY) requests your help on behalf of Jacquelyn Bass, an MSU graduate student who is preparing a study of people's attitudes about consumer credit

> and indebtedness for her doctorate in sociology. Would you please complete the enclosed questionnaire and mail it back to her--it takes only a few minutes, requires no postage, and your responses are completely anonymous. This research project has no connection with any counseling or collecting agency. Any information you give will be used only in scientific analysis of social-psychological aspects of consumers' use of credit. We urge you to volunteer your help in this study. If you wish to verify our approval, I invite you to call this office. Your participation in this project is very important to its success and would be greatly appreciated.

During the course of the interviews with those who responded, several persons indicated that they had discussed the matter with their counselor before returning my questionnaire.

[32]Perry B. Hall, 1968, p. 120. These facts are based on both national survey findings reported by Hall and more recent state-wide figures of the CCC in Michigan. Hall's comprehensive study of 32 counseling agencies and their clients in several communities across the nation reports that a sizable number of applicants requesting help were not accepted, the principal reason being that indebtedness was too great in relation to income so no realistic arrangement was possible for prorating and extending debts which would leave the family sufficient income for its needs. Some agencies (e.g., the CCC) do take welfare recipients as clients for whom it budgets and disperses money because it acts as a nonprofit community service organization. All such cases were screened out by the CCC when they sent my questionnaire on to their clients.

The general public tends to confuse counseling agencies with finance companies that make consolidation loans; debt counselors help prepare budgets, arrange payment plans with creditors for their clients, and often pay bills for them out of their own paychecks, but they do not make loans. The operation of debt counseling agencies is discussed more fully in later chapters. With respect to those I refer to specifically in this work, the true identity of Credit Counseling Centers, Inc. (CCC) has been used because it has many branches in the state and CCC is a common name for similar agencies in other states so anonymity of its clients is protected but I am able to use the informational material they make available to the public as a community service agency. All other organizations have been given fictitious names in view of the confidential nature of the resource material they provide for this study.

[33]H. Lee Mathews, 1969, p. 11.

[34]Ibid. Mathews collected several types of data on some 900 cases who had shortly before been declared bankrupt by a bankruptcy court in Ohio. He interviewed 152 persons sampled from this universe and administered the scales to 118 bankrupts;

34 refused, requiring him to put away all forms during their talk because their lawyers "had cautioned them not to put anything on paper." For comparative analysis in determining whether bankrupts as a class have attitudes that differ significantly from the socio-economic group of which they are a part, a control group of the same class was selected randomly and given the two attitude tests. Comparative averages and distributions of scale scores on 118 bankrupts and 152 control cases are reported in his monograph. Mathews employed the Thurstone technique of scale construction in building the attitude measures; he selected the items included in the final version from several hundred statements about debt thought to represent the broadest possible range of attitudes. The procedures he used are explained in his work (pp. 9-14 and 77-79).

CHAPTER 2

THE SOCIAL STRUCTURAL CONTEXT OF INDEBTEDNESS

The World of the Consumer Debtor: An Overview

The social structural environment of the individual who uses consumer credit and thereby incurs financial obligation is schematized in Figure 1. The schema abstracts from the total complexity of social structure those institutions which have to do with personal indebtedness and depicts them as constitutive of the structural context surrounding the individual consumer debtor. It represents an overview of the social-economic organizations that are relevant for consumers who make use of credit and those most likely to impact credit users who do not adhere to their financial commitments. We are to perform a two-sided examination of the consumer debtor's world, looking at it from two perspectives, and the diagram is intended as a general guide to the structural features that will be of central concern through both stages of inquiry. The initial phase of study depicts the social milieu of consumer indebtedness as it exists; it attempts to describe objectively the principal organizations and processes of consumer credit supply and debt enforcement, mainly for the purpose of providing information which is necessary to inform the analytic presentation that follows. The second portion of the work focuses on organizational processes of consumer credit and debt from the viewpoint of the debtor. Here we examine the experience

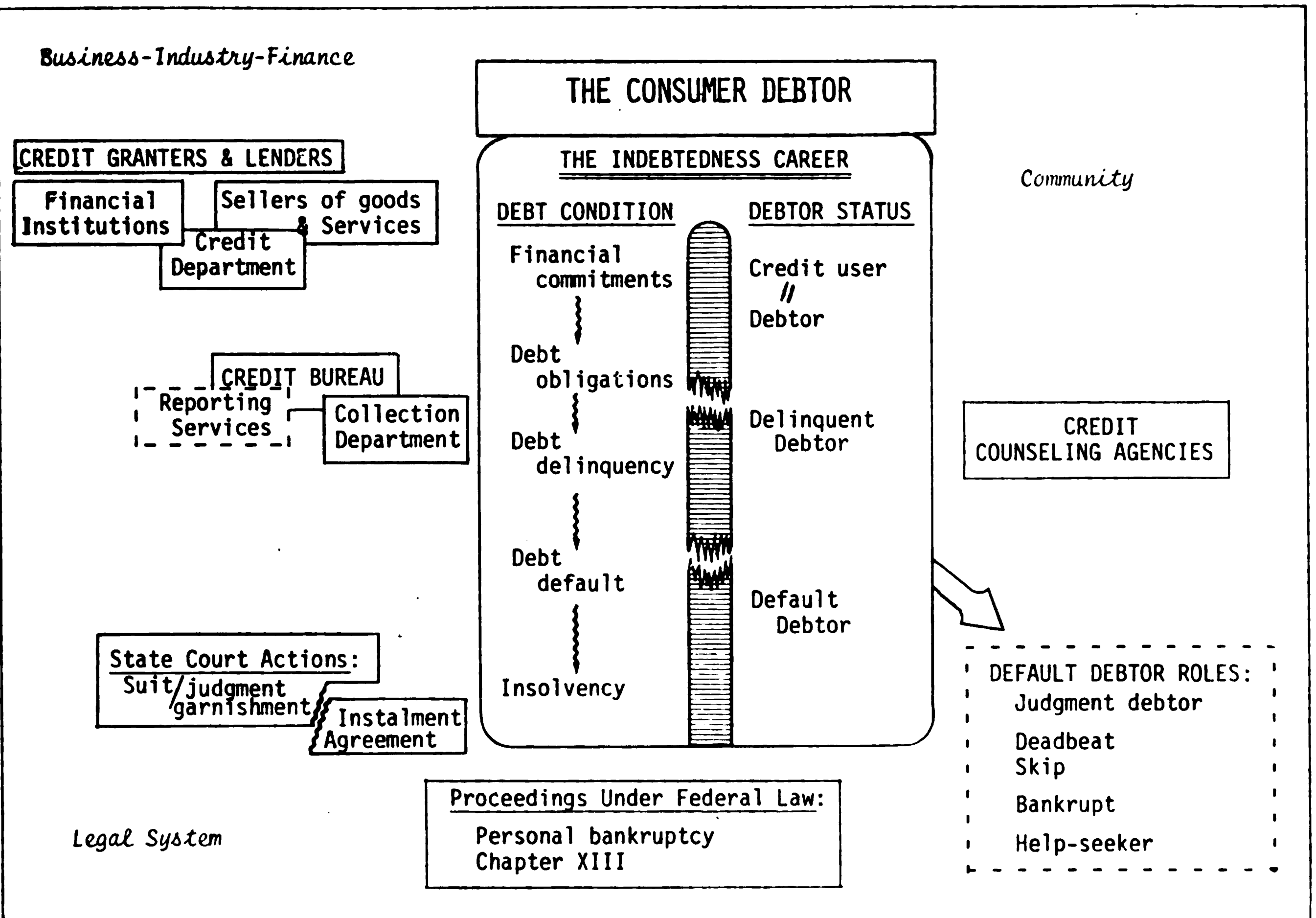


Figure 1.--Schema depicting social structural context of organizations relevant to the consumer debtor.

of indebtedness and the unfolding of an enforcement career as it appears to those individuals who have not carried out their agreements with creditors.

The investigation opens with a survey of the main types of consumer credit and its primary sources. Organizations that supply credit to consumers are of concern in the present chapter; they are represented in Figure 1 by a rectangle labeled CREDIT GRANTERS AND LENDERS. Of particular interest are finance companies and commercial banks, financial institutions that make direct cash loans for consumption purposes and provide financing for retail sales of consumer goods. This chapter also deals with organizations from which goods and services are obtained by consumers on credit terms of various forms and these are identified in the diagram as sellers of goods and services

These lending organizations ordinarily have a credit department which takes care of servicing the consumer credit transactions it enters into. It has the responsibility of investigating the applicant's credit record, establishing the terms of credit transactions, and arranging for repayment according to those terms. The credit department is the first point of contact between consumers and credit granters; it is also the first organization encountered by credit users who are past due in repayment of indebtedness, since the initial definition of debt delinquency is made by the creditor through its routine procedures for debt servicing. Indebtedness that is not cleared in the course of their routine handling is subjected to a series of increasingly coercive patterns of action

directed against the debtor in an effort to induce repayment. In Chapter 3 we show how the indebtedness of individual consumers is shaped and defined by these organizational processes and how the experience of a consumer debtor is given a career-like structure by the practices of creditors and debt collecting organizations. The coercive efforts of various organizations involved in the debt collection process constitute a series of connected stages; at each stage there is a sorting and redefining of debtors--some are filtered out or emerge from the indebtedness career by paying up and some are moved along for more severe enforcement measures.

Debtors who do not respond to the relatively mild collection efforts of the credit department are singled out for more vigorous treatments. When the creditor's collection routine has run its course the debt is typically turned over to a lawyer or to a collection agency which can invoke more drastic actions or take legal steps as means of effecting repayment. At this stage the indebtedness is identified as a "collection account" and responsibility for its collection by the credit department is relinquished. The better known and most effective of collection agencies are those which operate as the collection department of local credit bureaus. These organizations are identified in Figure 1 because they are important among the structural features under consideration in this study. Most credit bureaus offer both a reporting service and a collecting service for the credit granters in the community. Through affiliation with national credit bureau associations, reporting and collecting networks have been formed which enable

them to perform these services on a nation-wide scale. In Chapter 3 we will look at some of the procedures used by these organizations in handling their clients' collection accounts. Among the most severe measures at their disposal are legal actions which may be taken against debtors through the state courts on the creditor's behalf. The first legal step is suit action which is taken to establish the fact that the debt does exist and that it is of such an amount; the judgment against the debtor which is obtained by suit provides the creditor with a legal remedy to aid in collecting the proven debt. When the collection department has obtained a judgment on behalf of its client a court order may be obtained which enables the collector to receive the debtor's earnings directly from his employer through the right of garnishment.

As we examine the activities of credit-granting institutions and the organizational procedures that constitute the debt enforcement process (in the initial phase of this study) we will see that the organizations depicted as involved frequently function as both positive and negative forces for the individual; they may provide needed credit services to consumers, or remedies to persons over-burdened with debt, but they work in the interests of creditors and collectors as well. The two-sided nature of organizations that supply consumer credit will be brought to light in the present chapter. Here we attempt to explain how there has emerged out of consumers' demands for credit a vast credit system encompassing virtually every person in America. The credit organizations in this system have, in their own interests, developed credit-granting

policies that necessarily provide indebtedness opportunities to consumers who are only marginal (i.e., not good) credit risks and, because it is profitable for lenders, there is considerable competition for the business of marginal debtors. As a consequence, a debt collection process--one which may be a devastating experience for some individuals--has come to be an essential aspect of the credit system. We will glimpse other such ironies which appear in the person-structure interaction between the credit system and the consumer debtor as we consider the organizational processing of past due indebtedness, although space limitations will not permit our exploring them in detail.

Chapter 3, which is concerned with social structure as it bears on consumer indebtedness, examines the organizational procedures of debt enforcement that shape and direct the individual's career as a debtor. Although our main interest lies in the structural pressures that constitute enforcement (and keep the debtor in the career and subject to collection efforts), we will conclude the chapter by calling to attention some organizational processes that offer relief or avenues of escape to the debtor. In Figure 1 we have depicted relevant organizational elements so as to emphasize that the legal system provides some of the alternative solutions available to debtors faced with coercion by collectors even as it gives creditors and their agents the most effective means for inducing payment. The _instalment agreement_, a device obtainable in the state courts of Michigan, is featured in the diagram as a specific example of a debtor's alternative. Under this agreement

a debtor may prevent garnishment of his earnings by arranging to pay his debt in scheduled partial payments over a specified period of time; when the court grants the instalment agreement it issues an injunction preventing the creditors holding judgments from initiating garnishment proceedings so long as the debtor adheres to his part of the bargain. There are other opportunities for relief provided to debtors under the federal law. A debtor whose indebtedness exceeds the value of his property is deemed insolvent and he may voluntarily initiate bankruptcy proceedings by filing a petition in federal court to have himself declared a bankrupt. If his petition is granted and he is adjudged bankrupt by the court, his assets (with certain exemptions) are liquidated, the proceeds are distributed among his creditors, and the debtor is discharged from any further obligations to them. The Bankruptcy Act also includes provisions for nonbankruptcy relief under Chapter XIII which is known as the Wage Earner's Plan. It authorizes arrangements under which a wage earner, with the consent of his creditors, pays off their claims over an extended period. The debtor turns part of his earnings over to the court for distribution to his creditors and he is given legal protection from collection efforts or harassment while the plan is being carried out. Chapter XIII does not provide for discharge of indebtedness as does straight voluntary bankruptcy; it is aimed at rehabilitation of individual debtors by providing a method of making repayment which is feasible for the heavily indebted wage earner.

Credit counseling agencies are an important extra-legal alternative for debtors, also aimed at rehabilitation. They offer arrangements for making repayment which are similar to those of the Wage Earner's Plan but do not have the power to give their clients any legal protection against collection efforts. The rectangle representing credit counseling agencies in Figure 1 stands for profit-making organizations which provide debt pooling and counseling as a business (such as Debt Management Service, a Meridian firm mentioned earlier) as well as so-called nonprofit credit counseling agencies like CCC. Since the latter receive financial support from the business sector, part of their function is to provide a public service to the community; hence a portion of their case load consists of welfare recipients and clients without means to pay their fees. Many of their clients are referrals from a variety of other social agencies to which people look for help with their problems including mental health clinics, marriage counselors, legal aid societies, and alcoholic rehabilitation centers. Because of the importance of this aspect of community-supported credit counseling, these organizations are represented in the schema as the primary social agency pertaining to debt-related problems. Apart from the service to the nonpaying segment of their case load, these credit counseling agencies do not offer a free service to debtors; in all other respects their operation is essentially the same as that of profit-making counseling businesses.

Credit counseling agencies have an important place in any consideration of credit-debt structures primarily because their

services are so frequently chosen as a solution to or an aid in handling serious debt problems. Although the remedies provided by the instalment agreement and Chapter XIII are similar to the services of credit counselors, for various reasons they are rarely selected by debtors as a course of action. In the conclusion of Chapter 3 we will see that counseling agencies occupy an equivocal position in the individual-structure relationship of debtors and creditors; by guiding debtors in their financial activities and dealing with collectors on their behalf, these agencies provide a genuinely helpful service to many debtors but they are equally dedicated to the interests of creditors. The main purpose of counseling agencies, particularly the community-supported ones, is allegedly to rehabilitate debt-entangled consumers, i.e., to guide them out of a difficult debt situation before it becomes a desperate one and re-educate them in the management of money and credit, thus indirectly preventing credit abuse detrimental to credit granters. Studies of actual practices of these agencies show, however, that their main concern is to prevent losses to creditors (and loss of fees to themselves) by working to keep debtors paying and to forestall them from exercising their right to bankruptcy. Creditors may refer defaulters to agencies for help but often not until the debt problem is hopelessly entangled; agencies then concentrate on budget management (rather than education) and become in effect collectors for the creditor. As we look at debt-relevant organizational processes from the consumer

debtor's viewpoint in Chapter 4, we will consider the effects of credit counselors' influence on the debtor-clients they serve.

The large box in the center of Figure 1 outlines the essential aspects of indebtedness as they bear upon the INDIVIDUAL CONSUMER DEBTOR whose contact with a credit-granting organization has given rise to a credit transaction. The negotiation of a credit transaction between an individual consumer and a consumer credit supplier is always the initial act of personal indebtedness--it marks the entry point to the INDEBTEDNESS CAREER. The indebtedness career is symbolized by the vertical bar at center. Marking the course of the indebtedness career are organizationally defined states of indebtedness or debt conditions. The dimensions of debt condition are time and the amount of indebtedness: an individual's state of indebtedness is defined on the basis of the size of his debt load in proportion to his assets and in terms of his debt delinquency--how far past due he is in repayment. Five states of indebtedness marking increasingly serious debt conditions are identified in the schema: the debt condition of an individual whose credit transaction is not yet due for repayment is regarded as financial commitment; when the due date for repayment arrives his indebtedness is considered to be debt obligation. If the debtor fails to make repayment when his debts fall due according to the terms of his agreements with creditors, his debt condition becomes that of debt delinquency. The point at which debts become delinquent is variously determined by credit granters on the basis of their particular credit policies and organizational practices.

There is no uniformity among credit granters in defining debts as delinquent but the routine procedures of most credit departments would almost certainly identify as delinquent an obligation that had run 60 days past the agreed date of repayment. The manner in which credit department practices routinely handle credit transactions and identify those which are delinquent is discussed in Chapter 3. Many factors enter into such a decision including the nature of the credit transaction, the creditor's lending policies, the debtor's reputation and present circumstances, and the prevailing state of the economy. The condition of debt default is similarly indeterminate; it generally identifies indebtedness which is both long overdue for repayment and involves a relatively large amount of money so that definite collection efforts are likely to be initiated. In most cases, such a debt is written off as a loss and turned over to a collection agency and at this point it would definitely be considered a default debt. The debt default condition generally ranges from serious debt difficulty to insolvency; it begins when most of an individual's obligations have been defined by creditors as delinquent and subject to collection efforts, or when the amount of his regular payments on existing credit agreements exceeds his current income so that he is unable to meet his obligations as they mature. This state of indebtedness may grow increasingly serious until it reaches the point at which the debtor's liabilities exceed his assets; he is then insolvent and is eligible to have himself declared legally bankrupt.

In general, these five states of indebtedness correspond to the ordered series of experiences through which the individual consumer debtor is propelled by the routine practices of credit granters and collectors. As he is progressively redefined by debt enforcers and advanced through stages of sanctioning severity, his indebtedness state becomes ever more critical. Movement through the indebtedness career is marked by a series of debtor statuses which reflect these increasingly serious debt conditions. A given individual occupies different debtor statuses as he moves through successive debt conditions; the consumer who has entered into a credit transaction is by that act a credit user but, mutato nomine, he also occupies the status of debtor. Negative connotations are not to be attached to the term debtor at this stage of indebtedness; it is used here to emphasize the fact that although persons who have serious debt problems may eventually be labeled as deviants by the process of debt enforcement, the credit transaction by which one becomes technically a debtor is not of itself a deviant act. Virtually every American consumer is at some time a debtor and the term is intended only to denote an individual who has received goods or worth in exchange for his promise to pay at some specified time in the future. Failure to live up to this promise, however, alters his debt condition and his debtor status changes from current credit user, technically a debtor, to delinquent debtor. Since debt conditions are not definite stratifications, debtor statuses are not discrete differentiations; these terms reflect the general nature of debt careers which are processual but do not have temporal

specificity because the defining process itself is unstandardized and inexact. In general, the status of an individual who has not repaid indebtedness according to his agreements with creditors is that of delinquent debtor; if his debts are of some magnitude and are appreciably past due (usually at least six months) and definite collection efforts are imminent or under way, he holds the status of default debtor.

It is the experience of the default debtor with which this study is primarily concerned. Upon completion of the preliminary examination of the structural side of consumer credit-debt as outlined in Figure 1, attention turns to the task of understanding and analyzing sociologically the subjective aspects of indebtedness. As explained in the introduction, the main thrust of this study has to do with such self-redefinition as may occur in the course of an individual's experience as a default debtor. Specifically, it seeks to determine the impact of the debt collection process, treated conceptually as a social control system, upon debtors subjected to the sanctions of debt enforcement. This investigation builds on the groundwork of Rock's analysis of the collection process and utilizes his conception of debt collection as a process which is imposed on default by the career which is organized for the debtor. Rock noted that the defaulter who does not repay a debt is forced to undergo a series of changes of experience; each successive phase of debt enforcement involves a different pattern of action directed against the debtor and a forced change of status for the debtor (i.e., a serially linked set of statuses

ranging from credit applicant to prisoner). We are proposing a similar progression of status changes, from credit user-debtor to default debtor, but our treatment of indebtedness as a deviant career gives more emphasis to the debtor's response to these coercive measures. There are alternatives of various kinds from which he can choose, ranging from running away or filing bankruptcy to seeking help as with counseling agency clients. We trace the debtor's progress through a series of increasingly harsh collection efforts, concerned with the manner in which deviance is imposed on defaulters by collecting organizations which label him more deviant at each stage--but we then give explicit consideration to the labelee. This speaks directly to the point made by constructive critics of the labeling perspective, that this approach typically views the labelee as compliant and passive, that the successful application of labels is emphasized to the neglect of the motives, intentions, activities, and self-views of the labelee.[1] Rock's thesis focused on the propensity of the debt collection system to protect debtors' conceptions of themselves and on the way in which its workings are centered in the need to keep defaulters from assuming the deviant label, from becoming secondary deviants. We are asking, To what extent are deviant labels applied by debt collectors resisted, neutralized, or countered by the default debtor?

The procedures of collectors are outlined in Chapter 3; there we will show, confirming Rock's observation, that collectors make decisions in the course of their treatment of debtors which

effectively shape and define the deviation. Debtors are categorized and set up to receive particular forms of treatment and much depends on the way in which the debtor responds to the collector's initial communication. If he answers with a convincing explanation and shows a willingness to cooperate, the collector is likely to agree to arrangements which make repayment feasible for him. If he fails to keep the agreement more severe measures are immediately forthcoming. The collector will move to have suit brought against the debtor; he then becomes a "judgment debtor" and his collection account is singled out to receive special treatment during the ten years that the judgment remains in effect unless the debt is paid. In the case of nonresponse, collectors' interpretations of a debtor's refusal or inability to act form the basis of their identifications of him. He is assumed to be either uncooperative, thereby warranting immediate severe action, or deliberately evasive. For example, if dunning letters sent to the debtor are returned unopened without a forwarding address, the collector is likely to identify him as a "skip" and take appropriate steps in an effort to locate him. One of these labels derives from legal endorsement and the other is based on conjecture, but they are both stigmatizing identifications that signify deviance-control measures; other defaulter identities are suggested by the tentative list which appears in the dotted rectangle in Figure 1. This list is intended only to suggest the kind of role labels which might be applied to or voluntarily assumed by default debtors. It is presented at this time to preview the general direction of the later phase of

inquiry (that based upon interviews with default debtors) and to show how the structural elements represented in Figure 1 which we have been discussing relate to that part of the study. The survey of the structural context of indebtedness outlined by the schema, of which this is an overview, concludes with a description of the procedures of debt enforcement agencies. After we have looked at the defining process that guides collectors' activities and have considered its potential for imposing deviance upon debt defaulters, we will try to determine how deviant labels generated by the collection process are regarded by debtors and to discover what kinds of identifications default debtors apply to themselves.

Because the extension of credit to individual consumers is the foundation of all other aspects of personal indebtedness and debt collection, a survey of consumer credit and its suppliers is presented first. The remainder of this chapter contains a definition of consumer credit, explanations of its major forms, and descriptions of the principal organizations that supply various kinds of credit. A brief history of the recent development of the main types of credit is included to show how the complex financial system presently existing in this country came to be formed in response to the need and demand for credit by American consumers.

Consumer Credit and Credit Granters

Consumer Credit Defined

In collecting and organizing the consumer finance data reported in monthly bulletins on monetary developments in the nation,

the Federal Reserve Board has defined consumer credit as "all short- and intermediate-term credit that is extended through regular business channels to finance the purchase of commodities and services for personal consumption, or to refinance debts incurred for such purposes."[2] Thus the term may refer either to an advance of funds for the purchase of goods and services for personal consumption or to an advance of goods and services in exchange for a promise to pay at a later date. Since this definition is derived from the actual lending activities of retailers and financial institutions, it represents the generally accepted view of what is meant by consumer credit within the business community. Implied in this definition are several important distinctions: it refers only to credit extended to individuals for household, family, and personal expenditure and excludes all types of business credit; it identifies two forms of consumer credit--purchase credit used to acquire merchandise and services and loan credit used in direct borrowing from lending institutions and other money sources; it recognizes the distinction which is made in practice based on the length of the stipulated period of repayment by applying the term consumer credit only to short- and intermediate-term obligations (ordinarily less than five years) in contrast to long-term credit commitments. Thus credit for automobiles, mobile homes, and home improvement is included while that for home purchasing, the only case of long-term consumer financing, is not.

Consumer credit is subdivided between instalment credit (scheduled to be repaid in two or more payments) and noninstalment

credit (to be repaid in a lump sum). There are four major forms of instalment credit: (1) automobile paper, which represents credit for the purchase of new or used cars including cash loaned to consumers for this purpose and credit extended by dealers who commonly sell their loan contracts to financial institutions; (2) other consumer goods paper, similarly representing credit for the purchase of durable goods such as home appliances and furniture, boats and mobile homes, as well as some soft goods and less costly items of retail merchandise; (3) home repair and modernization, which covers loans or credit used for buying and installing such equipment as heating and air conditioning systems or for making additions and improvements to the home; (4) personal instalment loans, representing cash obtained for such varied uses as travel, educational, or medical expenses or for the consolidation of existing debts. Noninstalment credit falls in three main categories: single-payment loans, regular retail charge accounts (payable within 30 days), and service credit which covers indebtedness to public utilities, medical facilities and practitioners, and other suppliers of consumer services.

Major Forms and Sources of Consumer Credit

Adult Americans in the 1970s have grown up in a credit world--the ready availability of a variety of forms of credit for personal consumption has become a part of our culture. A representative of a credit bureau trade association who recently conducted a series of retail credit seminars in several European

countries reported that his European audiences were amazed at the extent of U.S. credit sales and at the promotion of credit in this country.

> Credit, as we know and use it in the U.S., is virtually unknown on the Continent. Where charge sales in U.S. retail stores average 50 to 75 per cent of total sales, they constitute only 10 to 15 per cent of the total in most of Europe. And despite tremendous opportunities, little effort is made to secure additional volume by offering credit accommodations. In conducting retail credit seminars I always stressed the value of credit. We were told, however, by many of the participating merchants, that their clientele could not afford to obligate themselves for credit. Their salaries would not justify it.
>
> When we discussed credit sales promotion, most of those present were amazed at the amount of advertising and promotion U.S. merchants use to secure new accounts, revive inactive ones and advertise the advantages of having credit accounts and maintaining a good pay record. Slides, newspaper clippings and drawings were used to illustrate this part of our presentation. During one of the lectures, following showing of a film, one member of the audience asked, "Are you just showing us these ideas or do you really use such violent and drastic methods to sell merchandise on credit?" He also wanted to know whether U.S. merchants would accept a cash sale.[3]

Consumer credit is so taken for granted that pay-later convenience is often accepted without awareness that it is an extension of credit and credit users, so long as they can meet their obligations without difficulty, do not think of themselves as debtors. When personal bankruptcies hit a record high in 1967 (208,329 cases), the increasingly widespread use of credit and the magnitude of personal debt and its attendant economic and social problems came to the attention of many scholars and social workers, but these phenomena tend to escape notice by the general public. Most Americans would be astonished to learn that their use of consumer and home mortgage credit contributes to a total amount of personal

debt outstanding in excess of $600 billion at the present time. Some form of instalment credit is used by over half of all U.S. families; two-thirds of all homeowners are committed to long-term mortgage obligations. One family out of two uses credit cards; there are now more than 500 million cards outstanding and this form of credit is used in over half of all retail purchases. About 17% of the average family's take-home income goes to meet instalment payments, double the 1949 proportion, and this does not include mortgage payments on the home.

The gas station credit card and the regular retail charge account (familiar forms of 30-day charges) do not, as it might seem, represent the biggest share of the total volume of outstanding consumer credit. Although there are over 100 million such credit cards presently used and some retailers continue to offer 30-day charge to convenience their customers, most have turned to optional or flexible account plans which have a revolving credit feature and are thus regarded as a type of instalment credit. The most significant development in consumer credit in recent years has been the phenomenal growth of instalment credit. Since the end of World War II, while total consumer credit has increased from $6 billion to $190 billion, instalment credit increased from $2.5 billion to $156 billion, but 30-day charge credit has grown only from $1.5 billion in 1945 to $10 billion in 1974. Instalment financing of automobiles and consumer durables alone accounts for more than half of the total of consumer credit outstanding. Table 1 shows the relative importance of the main types of credit extended for

personal use in terms of amounts outstanding at year-end 1974, the most recent year for which Federal Reserve data are available in this form.

Table 1.--Personal credit outstanding December 31, 1974, by major type. (In millions of dollars)

	% of total consumer credit		
Mortgage debt (1-4 family dwellings)			$411,520
Total consumer credit outstanding			190,121
Instalment credit	82.0%	156,124	
Automobile paper	27.2	51,689	
Other consumer goods paper[a]	27.3	52,009	
Home improvement loans[b]	4.3	8,162	
Personal loans	23.2	44,264	
Noninstalment credit	18.0%	33,997	
Single payment loans	6.8	12,979	
Charge accounts:			
Retail outlets (30-day)	4.2	8,012	
Credit cards[c]	1.2	2,122	
Service credit	5.8	10,884	
Total personal debt outstanding			$601,641

[a]Includes bank and retail credit cards with revolving credit feature.

[b]Institutional holdings only; home improvement credit by retailers included in other consumer goods paper.

[c]Service station, home heating oil, and miscellaneous credit card accounts only; all other credit card outstandings included in instalment credit.

SOURCE: Board of Governors of the Federal Reserve System.

People who make only limited use of the consumer credit opportunities available to consumers may be surprised by these comparisons. Those with relatively high incomes, the group which typically uses credit as a convenience, may never have entered into an instalment contract and perhaps did not realize that so much of consumer buying is done on this basis. Higher income credit users tend to think of retail charge accounts and credit cards in terms of 30-day credit; it is likely that they are unfamiliar with the revolving credit arrangements provided by the card plans. Because people whose financial situation enables them to do so often prefer to pay up their accounts each month before finance charges become applicable, it is possible that they are not even aware that the card or retail account they use is actually an instalment credit device and that a great many consumers do make heavy use of the revolving credit option. As the figures presented in Table 1 indicate, consumer goods purchases are far more commonly transacted through instalment credit than on 30-day terms. The following discussion of consumer instalment financing, which includes descriptions of some of the newer forms of instalment credit offered by retailers and banks, explains how it is that instalment credit, particularly other consumer goods financing, has come to represent so important a part of consumer credit.

Instalment Financing of Consumer Goods

An American humorist once remarked that the way to relieve traffic congestion was to remove from the roads all the cars that

weren't paid for. That was in the 1930s and auto financing debt is now more than 50 times what it was then. One-third of all instalment debt in 1974 was for the purchase of automobiles. According to Census Bureau figures for mid-1971, 80% of all households own at least one car and 30% own two or more. The most recent Survey of Consumer Finances (1970) reported that 66% of new cars and 45% of used cars were bought on time. Generally in these transactions, the car serves as security for an instalment contract made with the dealer and sold to a bank or finance company or as security for a direct loan of money for its purchase. Commercial banks are the dominant institution in auto purchase credit: they finance three out of every five cars bought on instalments and, in 1974, they held $30 billion in automobile paper, over half of the total of all automobile credit. Bank auto loans are often transacted directly with customers but instalment paper purchased from car dealers represents 60% of auto credit outstanding by banks. Another $12 billion in automobile paper is held by finance companies, primarily by the finance company subsidiaries of the big three auto manufacturers. The remaining $9 billion in auto instalment contracts are held by other financial institutions, particularly credit unions, and by auto dealers. For the privilege of financing their car purchases, buyers pay interest at rates ranging from 13% to 19% (somewhat less if they borrow directly from a bank) and commonly require 36 months for repayment.

An equally large portion of instalment credit is used for the financing of "other" (i.e., nonautomotive) consumer goods.

More than 60% of all expenditures by consumers for durable goods other than cars are financed by instalment credit. About a fourth of other consumer goods credit is used for the purchase of mobile homes and recreational vehicles, mostly through commercial banks ($8 billion in 1974) and finance companies ($3.6 billion). Another large segment is represented by credit extended through instalment contracts with financial institutions and retailers for such major purchases as boats, motorcycles, jewelry, electronic equipment, furniture, and home appliances. As of 1974, financial institutions held about $12 billion worth of the instalment paper on consumer durables, about 63% of the total, but retailers also have a hand in making these "big ticket" items available to consumers on convenient terms. Retail instalment contracts require a definite percentage of the item's value in down payment and include specific terms for retiring the debt in a series of partial payments with interest typically charged at annual rates of about 16% to 30%. Over $19 billion in other consumer goods credit was supplied by retail outlets in 1974, 37% of the total.[4] Some of this was in the form of instalment contracts but most of it was extended through the newer form of instalment credit, revolving charge accounts, which are taking an increasingly important place in the financing of consumer goods by retailers.

Revolving credit is commonly offered in the form of option-term plans whereby the customer is given a choice of paying his bill within 30 days with no carrying charge or paying a prescribed portion of the balance owed each month; in this event finance charges

are added, commonly a small percentage per month on the unpaid balance, but this amounts to a true annual rate of 12 to 18%. Additional purchases up to a limit established by the store may be added to the unpaid balance of the account--the agreement entered into at the opening of the account serves to make the signing of separate contracts unnecessary, no down payment is required, and the customer's credit need not be rechecked with each purchase as with the usual instalment buying. Revolving credit plans were originally devised to stimulate retail sales of softwares and clothing in the late 1930s but the advantages they offer, both to consumers and merchants, have led to their increasing use as a means of purchasing consumer durables. Many retail outlets which formerly granted 30-day credit and issued credit cards to regular customers primarily to facilitate identification and record keeping have gradually switched to option-term revolving credit plans. Instalment credit is thus made available for the purchase of more kinds of merchandise and extended across a wider range of consumers; it enables stores to supply free credit for customers with good incomes while also providing the opportunity for buying department store goods on time--not as a convenience but as a means of paying later from future earnings.

A profitable revolving credit card operation requires a card holder mix weighted on the side of lower-income consumers for whom a $200 to $500 line of credit is a great boon in terms of purchasing potential and these are the consumers who use a credit card more as an extension of income than for convenience; without

the willingness of many such consumers to pay continuous finance charges, credit card plans are unprofitable enterprises for issuers. In effect this has made it possible for many families to own durables who could not have bought them under other conditions but it has also encouraged many consumers to purchase items on instalment credit that they might not otherwise have bought and to pay financing costs in addition. Mandell's (1972) study of credit card use showed that credit card users tend to view their cards more as debt instruments than as mechanisms for facilitating transactions. In general, high-income families regarded credit cards as a convenience and those who do use the debt feature of the cards pay it off as quickly as they can. Lower-income families are more likely to treat the debt as a loan.

> Fully 75% of all respondents said that credit cards made it too easy to buy things that they may not really want or that they can't really afford. On the other hand, when asked about the advantages of credit cards, the most frequent response related to the credit feature--the fact that the family could buy without having the money and pay the purchase price back over time.
>
> At least half of all credit card users use the debt feature of their cards. Of this proportion, approximately half treat their debt like an instalment loan, that is, they pay a little bit each month, generally the minimum allowable monthly payment.[5]

Mandell also found that holders of retail store credit cards used them most often for clothing purchases--90% of all store card users bought clothing and the next most frequently purchased items (bought by 16% of card-using families) were household goods and appliances. The large chain retailers and mail order houses are the giants of revolving credit card operations; retailers issue

over half of the 505 million credit cards outstanding and the Sears and Montgomery Ward chains alone account for over 40 million of them.

Gasoline company credit cards rank second in number with 138 million cards, 27% of the cards outstanding in 1974, and there are now over 200,000 service stations that will honor these cards. Although gas station credit cards were in limited use before World War II the amount of such credit was negligible, but use of these cards has grown rapidly since the 1950s. Until very recently the credit card system of major oil companies remained typical of early credit card plans: the oil companies were very strict in their acceptance of individuals as credit risks, all of the customers' purchases over the month were consolidated and presented as one bill to be paid as a regular 30-day account without finance charges, and only items (mainly gas and oil) normally sold at service stations were charged on the card. Significant changes are now taking place in this field: oil companies have begun to adopt the revolving credit type of plan and, as with retailers, they have had to relax their risk standards to achieve a wider card distribution. Along with the proliferation of gasoline credit cards, oil companies have made a wide range of items available to card holders and an increasing number of motorists are purchasing tires, batteries, accessories, and car maintenance services, using credit cards instead of cash. (A recent study showed that one out of five oil company card holders valued their cards mainly for the good mechanics and repair facilities of the local service station.) The most recent

development has been the extension of oil company credit card uses to other merchandise and services including rooms and meals at motels, car rental, insurance, and travel clubs; another innovation is direct mail sales promotion of retail items not related to oil company operations.

Of the $52 billion in other consumer goods credit outstanding at the end of 1974, all but $19 billion, the amount held by retailers, was granted by financial institutions. The holdings of commercial banks, $22.3 billion, represented two-thirds of all institutional credit outstanding for other consumer goods and 37% of this was in the form of charges made on bank credit cards. The emergence of bank card credit has been one of the most dramatic developments in the consumer credit picture. Bank card programs began coming into general use around 1966; by the end of 1968 bank card credit outstanding had reached $1.3 billion, and by 1974 there were 60 million bank card holders and outstanding bank card credit totalled $8.2 billion. There are some 14,000 commercial banks in the United States and virtually all extend credit to consumers. On the average, other consumer goods credit represents nearly a third of their instalment credit portfolio and bank card credit about 10%. The big banks dominate this field--the nine largest banks, primarily the card-issuer institutions, held 20% of all credit card receivables in 1974.

The bank card credit plan is similar to that used in retail card programs: the card holder can opt for full payment within a 25-30 day grace period or run the account on a revolving basis

paying a required minimum and a finance charge, usually 18% annual rate. Since the bank card can be used at any participating member firm a wide variety of goods and services are available to consumers on credit from a diversity of enterprises including retail, service, medical facilities, educational institutions, and even tax-collecting agencies. For participating merchants the card represents a line of credit granted to the consumer by the bank. Accepting bank cards offers them a number of advantages: it allows them to maintain a cash position and relieves them from having to operate a credit facility for screening applicants and servicing and collecting accounts; their sales slips are deposited at the issuing or agent bank and they receive immediate credit to their own account, discounted at 2-6% which represents the bank's fee. The economy and convenience of bank card plans have made it possible for many smaller enterprises to offer credit that would otherwise have a cash-only policy and it is likely that bank card participation has meant survival for some merchants and increased business for most. For consumers, the opportunity to obtain an ever-widening assortment of relatively small items of goods and services through an open line of bank credit is not the only advantage of holding a bank card; a card holder may also use the cash-advance feature of bank card plans to take out a small personal loan. It is quick and efficient since the advance need not be processed or serviced as an individual loan and the consumer, who has an already established credit line at the bank, receives cash up to his predetermined limit without delay and without review

of his present financial situation or his expected use of the loan. Mandell found that only about 20% of bank card users he surveyed made use of the cash advance feature but according to more recent Federal Reserve data, such credit extensions increased with the economic downturn of 1974 and with the trend at banks to encourage credit card related loans.[6]

Consumer Cash Lending

The two components of consumer instalment credit discussed thus far, automobile paper and other consumer goods financing, are almost matched in dollar volume by personal cash instalment loans. Unlike other types of instalment credit, personal loans are not related to consumers' expenditure for any particular kind of goods. Consumers use borrowed funds for payment of medical and dental bills and other emergencies of every-day living, to consolidate overdue bills or refinance existing obligations; better-qualified borrowers may simply prefer to borrow cash to buy large consumer items rather than disturb their investments or pay the higher costs of other types of financing. In the personal loan category of instalment credit finance companies are the dominant lending institution. Over a fourth of all instalment credit, some $4 billion, was outstanding in cash instalment loans at the end of 1974 and nearly two-thirds of this was held by financial lenders other than banks. Although finance companies have traditionally been the principal source of small loans for American consumers their dominance in this field has been challenged by other institutions

in recent years. (Important changes in the organizational structure and credit activities of finance companies taking place during the 1970s as a result of this competition are discussed at the end of this chapter.) Bank participation in consumer cash lending is rapidly increasing through the development of innovative instalment loan concepts such as check-credit plans. In 1974 commercial banks held $15 billion in personal instalment loan credit, of which $2.5 billion was in check-credit plans, while finance companies held $17 billion in consumer cash loans. These new check-credit plans (and other related forms of over-draft plans) are connected with bank checking accounts and are independent of bank cards. With check-credit an arrangement is made with a bank which grants an approved line of credit to a customer up to a stated amount, much like an unsecured personal loan. The customer is given a special check form for making withdrawals and as repayment to the account is made the available credit can be reused; finance charges for the plan are similar to bank card rates. While check-credit outstanding in 1974 was relatively small in terms of dollar volume (16% of the personal instalment loan money extended by banks), the activity is significant because it reflects a trend in banking practice toward developing open lines of credit for consumer use rather than granting separate loans. These plans have some disadvantages for the bank, such as their inflexibility in times of changing economic conditions (see footnote 6) and difficulty with some customers who fail to revolve their accounts properly and abuse their credit privilege, but they are cost-saving and profitable

operations and they generate more loan business. The customer benefits by having to apply only once for loan money which can be revolved indefinitely and its use is not limited to particular merchants as with bank cards. Since applicants must measure up to certain credit standards, check-credit is a prestige form of borrowing intended mainly to finance small purchases and vacation needs rather than costly items such as cars. The nature of check-credit and over-draft plans tends to encourage consumers to borrow more casually and to stay in debt for longer periods and even those who yield to these temptations more for convenience than need pay finance charges at substantial rates for the privilege. Check-credit rates commonly run close to 18% annual percentage rate, compared with about 13% for one-year instalment loans. Nevertheless, amounts due on consumer check-credit plans have increased from 13 to 20% each year while the increase in bank lendings on regular instalment terms has been much less. Banks have encouraged the use of these plans as an alternative to bank credit cards because they are far less costly to operate.

Noninstalment Consumer Credit

This review of the major types of instalment credit is by no means exhaustive of the borrowing opportunities open to consumers. There are in addition the large segment of credit represented by residential financing and instalment financing of improvements and additions to the home. Single-payment cash loans, which make up a sizable part of outstanding noninstalment credit,

are an important source of funds for those who need large loans for short periods of time; this type of loan is usually made by commercial banks at nominal rates to low-risk applicants, often on an unsecured basis or with investment securities as collateral. Noninstalment loans are an important part of bank portfolios (almost $12 billion of the total $13 billion in single-payment loans outstanding in 1974 was held by banks) but instalment cash loans are of far greater importance in the over-all consumer credit picture. Another source of money for certain borrowers is the pawnbroker; personal property is pledged in exchange for a quick cash loan and although interest may run as high as 35%, no inquiry is made into the individual's credit standing. A large amount of loan money is supplied by nonbusiness lenders such as philanthropic organizations, church societies, fraternal orders, and educational institutions. There are also loans made by one individual to another, by businesses to employees, and cash borrowed by policy holders against their life insurance.

Our review of charge cards with revolving credit features did not include 30-day charge card credit. In this area there are, for example, seven million outstanding "T&E cards" (travel and entertainment), predominantly Diners Club, Carte Blanche, and American Express. Private card issuers are oriented toward a particular segment of the card user market: holders are carefully screened--a $10,000 yearly income is one criterion of eligibility--and a $20 annual fee is charged for use of the card. These cards represent "convenience credit," particularly useful to business

people because the billing provides an itemized record to substantiate business expenses for tax purposes. A number of establishments such as fashionable big-city restaurants have responded to this kind of business spending by catering to the "high class clientele and expense-account types" that use T&E cards.[7]

A survey of ways in which consumers may defer payment of their expenditures is not complete without consideration of service credit. Service credit is defined as the amount owed by individuals to professional practitioners and service establishments. The largest component of this type of credit is that owed to hospitals, doctors, and other medical practitioners; another substantial component of service credit is represented by public utility services--gas, electricity, water, and residential telephones. The remainder includes a variety of personal services including fees charged by educational institutions and social clubs, costs of legal services and funeral expenses, and sundry repair services such as tailors, TV and household repair services. Although instalment credit is gradually coming into use by some service suppliers, the 30-day account remains the customary way of doing business in the medical and legal professions and a growing number of service establishments that operate on a 30-day credit basis have appeared in recent years. Increasing use of service credit is evidenced by the fact that the amount of outstanding service credit has doubled in every decade: it was nearly $11 billion in 1974, $4.5 billion in 1964, $2 billion in 1954, $800 million in 1944, and $400 million in 1934. Unlike the obligations

a consumer accepts when making retail purchases on credit, indebtedness for services may be incurred without its being recognized as such. Robert Cole, an authority on consumer credit management, notes

> When people heat their homes with gas during the winter months and receive a bill for this utility service at the end of the month during which the service was received, credit is involved just as much as if they had walked into a department store, bought a suit of clothes, and charged it. As in the medical and dental professions, it is a customary method of doing business. True, the time involved is usually short, and the instalment method of repayment is not commonly used in consumer service credit as it is in retail credit. However, the cost of services continues to take a larger share of the budget of the American consumer and will undoubtedly continue to do so in the years to come.[8]

In spite of the vast growth of hospital, medical, and surgical insurance and increased use of health insurance provisions as an employment fringe benefit, expansion of health care delivery together with soaring costs of medical care are contributing to an increasing debt load for most consumers. Because service credit involves intangibles, as contrasted with instalment credit for which material goods at least ostensibly secure the indebtedness, it presents some special problems in terms of credit control. This is particularly true with professional credit: factors such as physicians' ethic requiring treatment without regard for ability to pay and the unexpected nature of many medical emergencies complicate the extending and collecting of health care credit; in addition, professionals seldom have facilities for follow-up on patient indebtedness beyond routine handling of current accounts by the regular office staff. From the consumer's side, service credit may quickly become burdensome debt because it is payable

shortly after the service is received even though repeated use of the service may be necessary or desired and this kind of debt cannot be sustained for long periods with minimal partial payments and finance charges as can the open-ended credit of revolving accounts. These are probably the main reasons why service credit is difficult to enforce and why physicians, hospitals, and service enterprises comprise an important client group for collection agencies.

Development of Consumer Credit as a Social Institution

Social Forces in a Dynamic Credit System

Given this array of opportunities for persons of ordinary means to use credit for personal consumption it would be difficult to find a gainfully employed American who has never known indebtedness. Variations on the basic concept of advancing cash or goods and services in exchange for a promise to pay later have been devised to put credit within reach of consumers of every social and income strata and for almost any conceivable purpose. As a consequence, consumer credit is now measured in many billions of dollars and has come to be recognized as an important economic force in this country. It represents the discretionary purchasing power of Americans as active consumers at work; it keeps assembly lines flowing to produce consumer durable goods which in turn generates jobs and incomes. It is a new force in the economy in terms of greatly increased personal consumption expenditure and wide-spread ownership of the means for satisfying many necessary

consumer wants and services. Consumer credit has become an institution in America: it takes an almost endless variety of forms, it is used in an increasing diversity of consumer transactions, it is extended to consumers in all walks of life--but more important than common usage is its acceptance as an everyday feature of American life, and this more than anything else has led to the institutionalization of consumer credit in our modern society. The pervasiveness of consumption through credit and its establishment as a viable institution are what have given meaning to the cliche--Credit is part of the American way of life--and these are largely happenings of recent decades. Consumer credit in the United States has emerged as an immense system and a complex structure of financial and service organizations has evolved, almost entirely within this century, to serve the ever-growing demand of consumers for credit. It is these aspects of consumer credit, its change in character and its development into a vast system that are twentieth century phenomena. What is new is not the use of credit by consumers but the form of consumer credit and the speed and magnitude of its growth and change. The American consumer credit system is one which is continuously changing and expanding in response to the varied needs and desires and capabilities of consumers and reflecting the shifting attitudes of the public and the business community. It is the interlocking influences of social, psychological, and economic factors which give our contemporary credit system its dynamic character, just as these forces have altered the form and use of consumer credit throughout the course of its development in

this country. The following brief history of American consumers' use of credit explicates the role of social forces in the recent development of consumer credit. It shows how social change gave rise to our present system of credit merchandising and cash lending and how social and economic factors led to the origin of the specialized institutions for supplying consumer credit.

The purchase of consumer goods on time was already a common practice in Colonial times. Merchants sold supplies and staple goods and put it "on the book," but these were informal transactions, an accommodation extended to customers who settled their accounts as agreed; defaulters suffered the pressure of public opinion and suspension of their credit privilege. It was expected that purchases would be kept within buyers' earnings and that the full amount of the debt would be paid upon receipt of income, however irregular that might be. In an agrarian economy this arrangement enabled consumers who had little cash to purchase goods as they were needed and settle up with the merchant when the harvest came in. Several different types of credit had their beginnings in the years before the Civil War. The use of credit for payment of durable goods while they were being used was an early development. Credit selling by merchants was an established practice by 1850 and in the cities of New England a large part of consumer trade was carried on in this way. At that time it was extended in the form of open account sales credit payable in a single lump sum and tradesmen typically carried the debt for long periods, often a year or more. Instalment credit originated near

the beginning of the 19th century and the sale of such items as pianos, sewing machines, and stoves on instalments represented a considerable amount of business by 1850. With early instalment arrangements terms were short, down payments large, and only consumers with excellent reputations for their credit dealings qualified for the privilege. The first service credit was that extended by early-day physicians and dentists (and much of it was uncollectible). Pawnbrokers, the first agency to make cash loans to consumers, were operating extensively in larger eastern cities by the early 1800s, but the development of other forms of consumer cash credit was delayed for almost a century because the legal basis needed for the emergency of consumer lending institutions was lacking.

Consumer Credit Transformed by the Industrial Revolution

This entire picture of credit and its use in early America was changed by the series of dramatic technological changes and economic innovations which occurred with the spread of the Industrial Revolution to the United States in the period around the turn of the century. The massive socio-cultural and economic changes following the Civil War transformed the primarily agrarian America of 1860 into a predominantly industrial nation by 1900 and with the rise of an industrial economy the stage was set for the origin of consumer credit in its modern form. In the writings of M. R. Neifeld, who has authored several standard references on consumer credit, may be found a useful account of the manner in which consumer credit was affected by the Industrial Revolution.

Dr. Neifeld identifies five factors of critical importance in this process and employs them to show how consumer credit was altered by the social and economic changes of this period.

> Industrialization caused profound changes in the economic organization of society and these in turn generated social changes which altered the use of consumer credit. Changes in a half dozen economic factors will illustrate how changes in the structure of society changed the character and use of consumer credit.[9]

The factors in which these changes manifested themselves are the following:

1. Concentration of population. With the development of the factory system, society evolved from rural handi-craft to the modern industrial and technological age characterized by large population shifts from rural to urban living. With the shift from an agrarian economy to a factory system in cities came occupational specialization. The worker became a specialist at a factory job who worked for wages at hire. His labors no longer gave him income in kind directly needed for maintenance; the family no longer supplied through their own exertions the means for living. They gave up self-sufficiency to achieve greater efficiency. This specialization through the factory system which increases efficiency of production leads to a greater inter-dependence between consumers and brings to the fore the importance of money. As specialization of efforts replaces self-sufficiency and the machine concentrates the common man in heavily populated areas, it makes him dependent upon a money income. In a wage economy, when the flow of money is interrupted for any reason, the need for different

forms of credit arises immediately and different institutions arise to supply the need.

2. Change in time income is received. When and how the consumer gets his income affects his use of credit. In an agrarian economy the consumer receives his income in a lump sum after the harvest so he must have credit from one harvest time to the next and he pays his debts once a year. In a factory economy the consumer receives his wages or salary weekly, bi-weekly, or monthly, so he pays his debts by weekly or monthly instalments. The effect is to change consumer credit from an average maturity of more than a year in colonial days to the weekly or monthly payment arrangements of modern instalment plans.

3. Gradual increase in real wages. The invention of time-saving tools has been increasing national productivity at a constant rate of 2 to 3% each year. This increase has had a powerful effect in terms of raising our standard of living and increasing the purchasing power of the average skilled worker. The economic effect of increased productivity has been gradually to lift incomes of workers above a mere subsistence level and to leave him a margin of discretionary income which provides the means of payment for consumer credit. In heavily populated countries without advanced technology national production remains below the subsistence level and consumers in such countries have little or no discretionary income. The demand for consumer durables we see in the United States is not determined by biological needs to stay alive. In our economy man does not live by bread alone. We have an economy

that satisfies wants, not merely needs. Needs are quickly sated; wants are inexhaustibly in infinite variety. Consumers with large chunks of discretionary income are active customers for durable goods and users of consumer credit. Under the American system a man can have a savings account and an automobile time-payment agreement at the same time.

4. An open society. Unlike European society, America does not have a class structure based on a feudalistic tradition where class means something fixed, unchangeable, and hereditary. The economy of the United States is dynamic because there is no real barrier between social classes. The "wrong side of the tracks" aspires to the right side and millions of Americans have ascended the social ladder in a single generation. Upward social mobility means the acquisition of comforts and conveniences. Standards of rank in society are almost unknown here, most of all standards that concern what is befitting for the lower classes. You hear no one saying, "That is not for the likes of me." The average American does not aspire to a bicycle for his means of transportation like the European worker--he wants an automobile, and he uses discretionary income to buy it through consumer credit.

5. Character of the goods the consumer uses. In the early decades of this century the housewife bought refrigeration for cash; each day the iceman tracked through the kitchen with a block of ice, placed it in the icebox, and collected a dime. It was poor refrigeration and an inefficient system of delivery. Today we buy a package of refrigeration that lasts for ten years and it is

efficient, reliable, and clean. In the same way we buy transportation, recreation, and time-saving as a package for long-time use. Countless services that were once supplied to consumers by outside sources are not available to the consumer by his own means--transportation, recreation, laundry and cleaning services, food processing and storage. Long-lived products are bulk packages of store-up utility to be extracted by the buyer on a time sequence and we buy these packages of multiple service through time-payment plans.

As a result of these five factors, there developed two major streams of consumer credit--lender or cash credit and vendor credit, credit for financing the sale of goods. The latter was reasonably well established by the middle of the 1800s in the form of sales credit by merchants, but the growth of cash credit for consumers was yet to begin. Its development depended upon a sixth economic factor, adequate capital for credit granters, and the sound legal basis needed to attract capital to this area had not been formulated at that time.

The Beginnings of Cash Lending Institutions

Today's small loan industry had unsavory beginnings in the urgent need for cash lending brought about by urbanization and industrialization. Industrial workers were without the relative security and self-sufficiency of agrarian life. Any interruption of earnings in a money economy--accident, illness, unemployment--is likely to create a crisis and wage earners were in frequent need

of cash loans to tide the family over emergencies or to compensate for differences in their incomes and expenses. As urban dwellers and workers in huge factory organizations, they lacked personal relationships with employers and close community ties. They had to search for an outside source of cash loans but before 1910 there were no legitimate institutions from which low-income workers could borrow. Wealthy families and persons with security in the form of real estate or investment certificates could get bank loans but few consumers met these requirements and the vast majority were forced to turn to illegal lenders in times of stress. Early cash lenders used various devices as loan security--some loaned against a signed agreement to have part of the borrower's future wages paid to them if repayment was not made on time; others made larger loans with mortgages on household furniture as security. They charged interest at 10 to 40% a month (often more than 500% annual rate) although existing usury laws prohibited interest of more than 8 to 10% a year. These general interest-limiting laws had been written with business lending in mind and they did not allow for the higher costs of services involved in making consumer loans. Legitimate capital was not attracted to the cash credit business because consumer loans could not be handled under these restrictive rates.[10] As borrowing demand increased, the cash loan field became a jungle of unscrupulous lenders using deceptive practices and charging unconscionable rates. This "loan shark era," which lasted well into the 1900s, was marked by "unethical business practices, shoddy merchandise, strong arm collection methods, physical violence

and collection pressure through reliance on social mores that a debt is morally wrong and therefore shameful."[11] Sporadic efforts at stricter law enforcement were futile because borrowers, glad to find any source of emergency cash, rarely pressed charges and lenders' practices made the usurous nature of transactions difficult to prove; interest was disguised as service fees, receipts were not given, borrowers were required to sign uncompleted contracts, and so forth. These abuses were finally brought to public attention when the Russell Sage Foundation made a study of lending conditions and began a campaign (supported by some lenders) to bring small loan operations under state control. The model statute drafted on the study recommendations in 1910 was soon adopted in different versions in nearly every state. Personal loan companies which had been in existence since around 1875 were exempted from usury statutes and licensed under these state small loan laws; the amount they could loan was limited and their business practices closely regulated but a realistic interest rate was allowed. Since most loan sharks were forced out of business and banks would not recognize personal loans to workers as a legitimate phase of their operations, small loan companies became the main answer to the social problem presented by a large class of borrowers who needed state protection to shield them from exploitation. The services of licensed small loan companies were in such demand that between 1923 and 1929 the number of regulated loan offices jumped from 600 to more than 3,500 and their loan balances increased sixfold. Large chain companies began to develop rapidly; Household Finance

Corporation, which operated 30 offices in 1918, had 100 lending outlets in 1927.

During this period, in which Small Loan Laws were being formulated leading to the growth of consumer finance companies, there was pressure to find alternative ways of providing small loans to workers which would legally circumvent unrealistic usury laws. From this emerged some ingenious new lending practices and several new forms of financial institutions were developed to engage in credit transactions that came to be exempted from existing laws by judicial decisions or special legislation. Credit unions originated in this way; the first was organized under Massachusetts law in 1909 and it set a pattern for other states as a way of curing the abuses of usurous lending. Although special enabling legislation had to be passed state by state to authorize higher interest rates than generally allowed, more than 150 credit unions were organized within a few years. The method of operation which qualifies credit unions for special legal status is that of a cooperative society, an adaptation of cooperative financial institutions developed in Europe. Under the cooperative organizational structure, credit unions were designed to provide a means for members to accumulate savings and cash loans could be made to shareholders for "any prudent and productive purposes." Membership was limited to groups having a common bond of some sort and the operation of the credit union was made the responsibility of the members themselves. State-chartered credit unions have grown rapidly in number, membership, and assets since the twenties; they

have organized into state leagues and in 1934 a national association of state leagues was formed. About half the existing credit unions originated under a federal act passed in 1934, which for many years provided funds to promote their organization. The success of credit unions has continued in recent years; some 20,000 are now in operation and they are presently among the most important and competitive of consumer lending institutions.

The industrial bank was still another type of institution established in the early 1900s to provide for small savings and make small loans to consumers. Rather than operating as an exemption from usury laws, the method of these institutions was designed to detour their limitations. Industrial bank lending was conducted as a dual operation: the loan transaction called for lump sum payment upon maturity and interest charges conformed to usury rates but a second transaction was linked to the lending which doubled the lender's rate of return. The borrower had to agree to make regular small deposits in a savings account at the lending bank until the amount loaned had been accumulated and it was then applied to payment in full of the loan. The plan was intended to meet the needs and resources of industrial workers, hence the name industrial bank. This system, which amounted to making generally equal payments at equal periodic time intervals, was a revolutionary idea at the time since the usual loan was essentially an IOU, with interest to be paid regularly and the principal due on demand. In 1910 a variation on this method of lending to the working man was developed in the "Morris Plan" and presented as a banking

practice, but it was poorly received by banks which remained generally negative toward nonbusiness lending. Its originator, Arthur Morris, then opened his own Morris Plan Bank and actively promoted the establishment of others in big cities across the nation. By 1917 there were about 100 of them, but since the 1920s there has been little further development of industrial banks or Morris Plan institutions. This is due in part to commercial banks' opposition to the creation of other financial institutions and lack of success in getting uniform special laws through state legislatures as with small loan companies and credit unions, but the main reason was entry of commercial banks into consumer lending in the 1930s and their vigorous promotion of consumer credit programs since that time. Industrial banks as such have disappeared in many states, often (as in Michigan) taking the status of state banks. The importance of these institutions lies in their contribution of the essential innovation to consumer financing. In a sense they were the forerunners of today's instalment credit plans. The general idea of the Morris Plan loans, the concept of making repayment of debt in equal amounts at specific intervals over a period usually less than a year, was to become the basis of instalment financing in all its many forms.

It was only a few years before World War I that the insistent demand for legitimate sources for personal loans finally culminated in the state legislation which established consumer lending institutions, and these organizations blazed new trails in consumer credit by demonstrating that the working man can be

trusted with credit and will meet his obligations. Even though he may lack tangible collateral, he can offer his character, a good payment record, and his earning power as security. During the years before 1920, while institutional development was under way and the average man was proving himself to be an acceptable credit risk, the automobile had reached a stage of development around which new demands for consumer credit would emerge. The growth of consumer goods financing and establishment of institutions to provide credit for the purchase of automobiles and the variety of other durables which became available after World War I occurred as a credit explosion after 1920. To understand how this aspect of consumer credit was shaped by changing social patterns and how its growth was stimulated by economic and social factors associated with American industrialization, it is necessary to return briefly to the general conditions around 1900 and trace the development of consumer goods financing as it paralleled that of consumer cash lending.

The Development of Retail Goods Financing

We have seen how the character of sales credit was altered by the social-economic changes of the Industrial Revolution. The harvest-to-harvest credit carried by colonial tradesmen gave way to open credit extended for the period between paydays by general merchants. As the general store evolved into the modern department store, open account arrangements were formalized into the 30-day charge account provided for customers' convenience, but only

for those with higher incomes, white-collar occupations, and substantial bank accounts. Until instalment selling had become widespread in other areas of consumer selling, most retail stores considered credit to be a costly necessary service and though they reluctantly appreciated the need for open accounts they shied away from instalment credit long after other vendors had accepted it. Reputable retailers, especially department stores, did not look favorably upon instalment selling and for much of the consuming public, enjoying the use of goods while paying for it was not considered respectable.

> Prior to 1911, the generally accepted thinking of the era was to discourage "time buying." Such stalwarts as Sears, Roebuck and Co. published admonitory editorials in their mail order catalogues advising customers not to be misled by firms advertising time payments.[12]

Although department stores withheld their acceptance of instalment selling for some time, expansion in retail charge account credit began in the mid-twenties when store owners came to recognize credit accommodations as a vital factor in competition between retail outlets and between consumer products. Products which competed against items sold on instalment plans had to be given more liberal open account terms and merchants became hesitant to press for prompt 30-day payment from good customers for fear they would be lost to more lenient competitors. Stimulated by active competition for consumers' retail business, open charge credit grew quickly and the amount extended by retailers has continued to rise steadily since the 1920s. Federal Reserve figures show a constant yearly increase from one and a half million dollars in 1929 to ten million

in 1974. When analyzed as a percentage of total credit for each year, however, a decidedly different picture is revealed; charge account credit has appreciably declined in relative importance over these years, a reflection of the growing acceptance of instalment credit by retailers and the encroachment of new forms of retail credit, particularly revolving account plans.[13] Since revolving credit is among the most recent of instalment credit variations, we will return to the emergence of special forms of retail credit after reviewing the general development of instalment selling in its earlier stages.

The invention of the instalment payment concept, its extension into virtually every kind of consumer transaction, and its phenomenal growth since World War II brought profound changes to the everyday lives of Americans. Gradually through the first half of this century and at a faster pace since the fifties, the American consumer has become increasingly more receptive to the idea of using credit--more tolerant toward being chronically in debt--and instalment buying has found a central place in his life. The real boom in instalment credit came with the general economic growth following the last world war but the practice of buying durable goods on time payments goes back more than a hundred years. The rudiments of modern instalment retailing were already present in 1856 when Isaac Singer found that he could sell many more sewing machines by financing their purchase. In one year after he introduced the idea of hire purchase (instalment financing) his sewing machine sales had tripled. By the turn of the century instalment credit practices

had spread through most of the eastern states and were applied to a wide variety of consumer goods; terms became gradually more liberal and extended payments began to be made available to consumers with relatively lower incomes. Early on, instalment buying began to change retail credit from an arrangement of prestige and convenience for the well-to-do to a means of expediting sales of factory-made goods to consumers on a mass scale. The giant boost in instalment buying came after the first world war when an array of new forms of consumer durables was introduced and made generally available to the consuming public through instalment selling. The investment in durables by consumers was the major factor in the explosive growth of instalment financing which began at that time. The stock of durable equipment in the home of the middle-income American of 1900 had an original investment value of about $200 in such devices as a sewing machine, an icebox, a cooking stove, and some inexpensive items of laundry, cleaning, and transportation equipment. Today such a home would have at least one automobile, a refrigerator, a stove and dishwasher in the kitchen, a washer and drier, several radios and a TV set, and numerous smaller appliances for use in cooking, cleaning, personal grooming, and recreation with a total purchase price of five to ten thousand dollars or more. The basic causes of increased investment in consumer durables lie in the fundamental social-economic changes associated with industrialization and urbanization; important among the more immediate reasons are these:

> Methods of producing durable goods in large quantities at a low price were important. To make large sales possible, goods had to be available at prices millions could afford. It is also true that a market had to exist for large quantities of goods to make the economies of large-scale, assembly-line production possible.
>
> This mass market was provided because incomes were increasing and money was available for items other than necessary food, clothing, and minimum shelter. Changing modes of living also provided the incentive to purchase such goods. More people were moving to the cities and wanted conveniences and a show of goods equal to those of their neighbors. Increased activities put a greater premium on leisure time, thus leading to a demand for labor saving devices.[14]

Although instalment buying was coming to be widely used, it was not universally regarded as an acceptable practice 50 years ago. Prevailing moral values, especially among the upper classes, had not adjusted to the idea of owing for possessions. They placed a high value on thrift and believed in saving ahead for major purchases--something that they, but not average wage earners, were able to do--and perhaps blue-collar workers' use of instalment credit to acquire the accoutrements of upper-class life despoiled the practice for better-off consumers. It is likely that the aversion to personal money lending as a business enterprise (reflected in usury laws) still lingered, and the legend of reprehensible dealings of loan sharks probably did much to give personal debt a bad image. Considerable stigma had come to instalment selling in its earlier years as some enterprising merchants and door-to-door vendors realized the possibilities of instalment terms for shady business practices; their abuses in sales techniques and collection methods also contributed to the negative side of instalment credit.

Many retailers had built up the same prejudice against instalment selling. They were discouraged by the prevailing low standards of the credit industry and they were apprehensive about promoting instalment credit because of their customers' negative reactions to it, but most of all they had not yet realized its potential as a merchandising device. The development of the mass-produced automobile and its commonplace purchase as a consumer durable brought respectability to instalment financing and led its expansion into other areas of retail credit selling. Nugent's historical review of American consumer credit suggests that the important influence of instalment auto financing in reducing the stigma attached to this kind of selling can be attributed to the major sales finance companies which came into being with mass automobile sales. They recognized that customer good will was essential to their business and set high standards in instalment dealings, forcing their adherence by smaller finance companies and by auto dealers themselves.[15] (The sales finance company and its development as a major source of instalment credit is discussed in the section following.)

As retailers observed the improved practices and the tremendous success of auto financing institutions and as consumer attitudes gradually became more favorable, they were increasingly willing to accept instalment customers. At first stores limited instalment sales to certain types of hard goods and required sizable down payments, with the idea of reducing the risk of loss if buyers defaulted. With increasing confidence in the credit process and a

better understanding of the behavior of consumers as credit users, reliance was put more upon buyers' character and evidence of willingness to pay than on the physical security of repossessible items and soon every kind of merchandise could be bought with some kind of instalment credit. As the practice gained respectability consumers of middle and upper-middle income levels began to do instalment buying and by the late twenties better retail stores could openly promote instalment credit without fear of damaging customers' good will or diminishing their own status in the eyes of the clientele. Retail instalment selling had arrived. Its constant growth has been interrupted only in the years of the Great Depression and by the wartime shortages and credit restrictions of the 1940s. In the decade after the war's end consumer credit increased five times, led by instalment financing of durable goods, and retail stores had not closed themselves out of this credit boom. As Cole observes

> Without question, the retailing industry now regards this type of credit as a necessary requisite. The success with which they have been able to merchandise instalment sales is such that the customer who does not buy in this way at some time in his or her life is coming to be the rare exception.[16]

Instalment selling in the form of revolving credit emerged after stores began granting regular charge credit to wage earners and lower grades of credit risk. This customer group were urged to open more limited forms of open charge accounts and to comply with certain weekly or monthly payment requirements and stores introduced a number of special "short-term" charge account plans which fitted the needs of this type of customer. Most successful

among numerous variations on the special account idea was the revolving credit arrangement which combined the monthly repayment feature of instalment terms with the traditional open charge account. The further development of revolving credit by retail stores into its present form reveals with particular clarity the manner in which credit is changed and expanded by consumers' willingness to buy goods of every sort on credit and sellers' need to find ways of complying with this demand in order to compete successfully for a share of consumers' discretionary spending.

The first revolving credit plan was offered by a large eastern department store in 1938. It was quite different from the form commonly offered today in that it required the account to be cleared in four monthly payments and involved no finance charges. The idea caught on at once among big department and specialty stores because conventional charge arrangements had not proven adequate to their merchandising problems; clothing and soft goods purchases were being crowded out of family budgets as easy instalment terms became more readily available for buying cars and durable goods. Expansion of this type of instalment selling was halted temporarily by the restrictions imposed on credit activities during World War II, but after these were lifted there was clearly a transformation on the part of retail stores from a passive acceptance of credit to active promotion of instalment selling. As a part of this movement many new forms of special credit plans were devised, specifically designed to broaden their customer base and maintain customer allegiance by liberalizing credit terms. Newer, more liberal

versions of basic revolving plans were introduced to give customers the opportunity to buy softwares and less costly items on a deferred payment basis and this proved to be a wise move for the retail industry.

> The revolving account turned the tide for our major stores. It boosted overall sales enormously and with extended payment plans soft goods came into their own. The store had been correct in concluding that easy credit for durables had been cutting into clothing sales but now consumers could buy suits, dresses and even socks on long easy payments too.
>
> Of course revolving credit isn't free to customers--most plans carry a rather high rate of interest. The revolving account is geared to the sale of apparel, toiletries, minor utensils and soft goods for the home. It is now possible to buy rapidly consumed goods and short lived items of clothing with 12 months or more to pay. With revolving credit it has become easier to buy but harder to budget and many consumers are finding it easier to get into credit problems. For instance, if you were to add a two-months supply of beauty aids to your revolving account, you might be paying for these niceties many months after they were used up. As payment terms are stretched out, it is essential that the consumer develop more realistic planning habits and he must give much more careful consideration to the cost of purchase, replacement, maintenance, interest charges and the addition to his debt load when he decides to use the convenient terms of his revolving account.[17]

The post-war revolving accounts permitted the customer to select the size of monthly payment best suited to his needs (to which finance charges were added) while the store set the length of time a revolving plan could run and these determined his credit limit. This system represented quite an expansion in credit terms for although it required clearing of charge balances within a definite period, it did provide more time for repayment and usually more credit for the consumer. Still, most stores found that these basic plans held too tight a rein on the buying activities of their customers. These shortcomings were overcome with the newest

version, the option-terms plan which was first introduced by a large Detroit store in 1956. This is the form commonly used today. It provides for full payment in 30 days as with regular open charge but the customer may opt for payment of a partial amount with a finance charge added. The typical plan requires balances paid within six to ten months if no further purchases are added on, but as the debt is repaid partially under the plan the customer is encouraged to continue buying within the original credit limit. Ordinarily he does--if he did not, the store would consider its sales promotion program to be inadequate.

From the retailer's perspective, the objective of revolving credit is to increase sales and hence profits on merchandise and there is added income from finance charges, but equally important is the need to offer these terms in order to compete with other retail establishments which have this policy. For the consumer, however, it may be a mixed blessing: although the store determines his credit limit, responsibility for the use and control of the option-terms plan is placed squarely upon the credit user. He is in the position of being able to charge a larger dollar amount of merchandise than with the regular 30-day arrangement because of the extended period over which payment can be made. Once the account is established he may continue purchasing without making repeated credit applications as with usual instalment buying. Despite these advantages for the consumer there are pitfalls in using revolving credit: buying may be too easy for certain users and they may find themselves continually in debt to the store. In

some cases, particularly when revolving credit has been actively sold to them, families have come to look upon revolving credit payments in the same light as other regular committed expense such as tax deductions. Moreover, revolving credit customers are paying directly for this privilege of delayed payment and at substantial rates.

Among the major retailing firms offering optional-terms revolving credit plans are Montgomery Wards and Sears. The heading of Sears' revolving charge account and security agreement form reads as follows:

YOUR SEARS CREDIT CARD CAN BE USED IN ALL 50 STATES:

**To charge anything Sears sells* **In any Sears retail store*
**With our catalog by phone or mail* **In a Sears catalog sales office*

This speaks dramatically of the change in retail consumer credit since 1910, when this same establishment admonished its customers about firms that advertised time buying.

Contemporary Consumer Credit Organizations

Introduction

This chapter has traced the development of consumer credit to show how it has evolved out of the demands and needs of individuals for material goods, how its development has been directed by changing social patterns which have altered consumers' credit requirements over the years, and how consumer credit has come to be a firmly established social institution in this country. The complex of practices and forms of transaction it now involves are

represented to the consuming public by a variety of credit-granting and lending organizations which have emerged as the suppliers of credit to individuals for consumption purposes.

The present section deals with these organizations, the financial institutions from which most consumers obtain instalment financing and cash loans--those organizations represented in Figure 1 as the first point of contact of the consumer debtor with the social structure of indebtedness. Although there is now a variety of consumer credit suppliers, some of which have already been mentioned in our description of consumer credit development, attention here will be directed mainly to the two largest and most important financial institutions of today, finance companies and commercial banks. We will first describe the development of consumer credit activities by these institutions, showing how they came to reach positions of dominance in the major forms of consumer financing within only the past few decades; we will then discuss the intensely competitive environment within which these giants of consumer finance now operate and suggest some ways in which the aggressive stance they have recently adopted affects the individual consumer.

Organization, Practices, and Customers of Finance Companies

Until very recently finance companies were clearly identified as two distinct types of financial institution--consumer finance companies and sales finance companies. Our earlier chronicle of the development of consumer cash credit showed how the needs of

industrial workers forced the introduction of a form of credit suited to their circumstances and led to the emergence of the small loan company as its major supplier. These companies, the consumer finance companies of today, operate under state small loan regulations and do most of their business in instalment cash loans made directly to consumers. Other financial institutions have emerged in a similar way, to meet the need for a particular form of credit; one of the most recent forms of specialized credit organization is the sales finance company which made its entrance with the development of the automobile industry. This institution specializes in consumer goods financing by buying instalment paper from car dealers and retailers of other consumer durables.[18] As a result of major changes in the organizational structure and activities of finance companies within the past few years, a clear distinction between them is no longer drawn. The Federal Reserve Board, for example, now reports data only for finance companies in general, although a firm which does more than half its volume of business in the purchase of instalment contracts would still be defined as a sales finance company even if it engages in some direct cash lending. We will first describe the development of the sales finance company and then look at the services the present-day finance company provides to consumers.

The rise of sales finance companies illustrates the important role of financial institutions in developing the consumer credit system which has now become an essential part of the American economy. These institutions emerged with the beginning of large

scale production of consumer goods in response to the growing demand for instalment credit to buy consumer durables and to meet the financing needs of dealers and retailers. After 1900, as credit arrangements were coming to be widely used and accepted, financing companies were formed to supply working capital to manufacturers and wholesalers by buying their open accounts and notes receivable. These discount companies were the forerunners, but it was only when automobiles became popular a decade later that sales finance companies were organized as they are known today. Dealers in consumer goods were arranging instalment contracts with their customers, but they needed an alternative to tying up their own capital in credit selling. Banks of that day were dubious about the soundness of these contracts and refused to make loans secured by instalment paper so retailers turned to the discount companies who would take over sales contracts and advance them the cash. Retail instalment financing soon became a major part of their business and they thus became known as instalment sales finance companies.

When the infant auto industry further incremented the need for working capital this new form of financial institution was at hand and the growth and development of sales finance companies has since paralleled and enhanced the expansion of automobile and consumer goods manufacturing. Early motor cars were first bought for cash by the well-to-do as a luxury or novelty but that market was quickly saturated--everyone who could afford to buy for cash had soon done so and there was need for some arrangement permitting the less affluent to pay out of income while using the car. With

this broad new market beckoning, auto dealers sought to expand sales by using their own limited capital to carry a few instalment accounts but they lacked resources for extensive credit granting and could not carry retail instalment contracts to maturity. Before 1915, despite public enthusiasm about automobiles both as status items and as a practical means of transportation, fewer than half a million families owned a car; auto production and distribution were restricted because lack of cash prevented consumers from buying. Capital was just as scarce for early car manufacturers. They were in no position to ship automobiles to dealers on credit terms as is customary in other lines of business and they began the practice (which continues today) of requiring immediate cash payment from auto dealers; hence retail dealers were also in need of a source of credit to finance their own inventories. Commercial banks were the established institution upon which business traditionally depended for credit but they were unwilling or unable to provide the new financing service required by the growing passenger car demand. Capital shortage seriously impeded expansion of the promising new industry until the gap was filled by sales finance companies. The first corporation specifically organized for auto financing was set up in 1915, and by 1925 at least 100 independent financing corporations had been established. In 1919 General Motors formed GMAC (General Motors Acceptance Corporation) as a finance subsidiary to facilitate its dealers' car sales across the nation and the other big auto companies soon followed with their own financing divisions. With the entry of sales finance companies

into the field of consumer credit the foundation for auto manufacturing as America's leading industry was established; the massive financial resources necessary for mass distribution of automobiles were at hand and availability of credit for use by middle-income car buyers ensured an ample market for their mass production.

> From the very beginning the automobile manufacturers and the sales finance companies supported each other's development and flourished. The automobile was off on a distinguished career of upgrading the American standard of living. Consumer credit was no longer only a part of the struggle for existence; as specialized financial institutions emerged in response to the demand for instalment financing, mass credit became the means to upward social mobility and an important feature of the great American struggle to achieve social status.[19]

Vast changes have taken place in the field of consumer goods financing in recent years and other institutions have cut deeply into the market of the independent sales finance companies. Sales finance divisions established by the nation's "big three" auto makers--GMAC, Ford Motor Credit Company, and Chrysler Financial Corporation--have now become the dominant suppliers of automobile financing. Many other large industries have also created finance subsidiaries to hold the instalment paper produced in the parent company's retail sales and to provide wholesale financing for its dealers. Captive finance companies are now so widespread among American industries one writer observed that "the roster of companies involved reads like a social register of corporations."[20] The operation of finance subsidiaries is most concentrated among electrical appliance, machinery, and transportation equipment manufacturers including General Electric, International Harvester, Fruehauf, and

Cessna Aircraft, to name only a few. Some have extended their activities far beyond the financing of their own product sales and have become major enterprises in themselves. The wholly owned subsidiary, General Electric Credit Corporation, for example, earned $46.5 million in 1975, 8% of the parent company's net income. The wide range of activities it is now involved in is clear in their advertising message:

Figure 2.--Advertisement suggesting range of activities by finance subsidiaries.

In the area of retailing, several of the nation's large chain store systems--Sears, Wards, Penney's Macy's, and many others--have established huge wholly owned finance subsidiaries to carry out the highly profitable function of providing retail purchase credit and these retailers now derive an important part of their income from consumer credit operations.

As durable goods and auto manufacturers expanded the operations of their finance subsidiaries and as retail chains formed their own affiliated finance companies, independent sales finance companies adjusted by moving into other kinds of activity. Many of these institutions have built up complex corporate structures through mergers and acquisitions of other companies and by forming holding companies and subsidiaries by which they have been able to broaden the scope of their operation and increase their volume of business. Diversification has taken several different forms: dealing in instalment paper other than automotive, such as mobile homes, boats, aircraft, and farm machinery; entering new fields, such as acquiring banks and forming insurance subsidiaries; moving into other types of financing, particularly into consumer cash lending. Some of the companies that pioneered in the field of sales financing, such as Commercial Credit Company, GMAC, and C.I.T. Corporation which were all founded before 1920, now rank among the world's largest financial institutions. They operate hundreds of offices throughout the nation and engage in a variety of forms of business and finance.

Major changes in the character of both forms of finance company have been taking place. The National Consumer Finance Association, which conducts annual surveys of finance companies and their operations, reports these industry trends for 1970 through 1974:

> During the past several years most sales finance companies have followed the policy of moving heavily into the personal loan market. The effects of this policy are

> reflected in a growing number of consumer finance companies and a decline in the number of sales finance companies. Moreover, these two types of companies are becoming much more similar as to sources of income, sources of funds (and other economic aspects).

Other trends are suggested by their data: a decrease in the number of companies together with an increase in the number of offices reflects the expansion of larger companies, mainly by purchase of smaller ones. The report also notes that while consumer finance companies continue to be somewhat more specialized in their function, they also have diversified their services through purchase of or merger with companies offering services other than installment loans.[21] An illustration of this form of expansion is seen in the case of two of the largest consumer finance companies: Beneficial Corporation, owner of the Beneficial Financial System which has nearly 1,800 loan outlets, also owns Western Auto Supply and Spiegel's; Household Finance Company operates hundreds of small loan offices across the country and also owns the Ben Franklin Stores system.

The finance company has long been the principal money source for the common man. Small loan laws were originally written to help consumers who could not get legal loans elsewhere and to a large extent it is still true that many families have no alternative--unlike the typical bank customer who could qualify and borrow funds from several sources. Finance companies in most states are regulated by some form of small loan law which limits their interest rate and the size of loans they make, and requires certain procedures to be followed in consumer lending. Michigan currently

permits loans up to $1,500, but 32 states have raised their limit to loans of $2,000 or more. (The original loan ceiling set by early small loan laws was $300, about 20 times the average factory worker's weekly pay at that time.) Although interest rates are governed by state laws, finance company rates are the highest among lending institutions. As of January 1975, the average annual percentage rate was 21.2%, but it ranges up to 36% in some states. In Michigan the maximum is 30.4%--for a consumer borrowing $300 for one year this adds up to $51.66 in finance charges on his loan. These relatively high interest rates are justified on the basis of the type of operation conducted by finance companies. They lend mainly to wage and salary earners who typically borrow small sums which means that the dollar cost per loan of acquiring customers and servicing their loans is high. Because they deal with higher risk borrowers, finance companies must incur larger costs of credit investigation to screen out those who lack the ability or the will to repay. Finance companies experience a higher rate of bad debt loss, partly because of high risk customers but also because the average loan size is too small to persist in costly collection efforts. Since finance company loans are always made on instalment terms, the costs of making regular collection are high as compared to the single-payment loans often granted by banks. Costly procedures of detailed accounting and special handling designed to protect borrowers from abuses are imposed on finance companies by state laws to which other lending institutions are not subject. Finally, because of the higher risk of their lending operations,

finance companies often have more difficulty in attracting capital and must pay higher rates for it. By permitting rates high enough to enable finance companies to do a profitable business in cash loans, a legitimate source of funds remains available to marginal borrowers who would not be likely to obtain legal funds elsewhere; these were the people the small loan laws were originally written to help.

Although finance companies lend to higher risk borrowers more than do other financial institutions, their lending is not limited to marginal customers. They serve the entire spectrum of credit risk. The companies surveyed by the NCFA in 1974 reported that 25% of the number of loans made were to borrowers with monthly incomes over $1,000, 24% to those earning between $750 and $1,000, and 20% to those with incomes under $500. The largest number of loans, 30%, were made to borrowers earning between $500 and $750 a month. The relatively low incomes of finance company borrowers are explained by their age and their occupation. Half of all finance company personal loans were made to borrowers under 35; the single largest group (15.3%) was 25 to 29 years old. The second most prominent age group was that between 45 and 50, to whom finance companies made 13.5% of all loans, and most likely includes persons locked into lower paying occupations. The customer group of finance companies is comprised mostly of blue-collar workers, as seen in the percentage distribution of Table 2. The average size of personal loans finance companies made to these borrowers has ranged between $800 and $1,000 in the years 1970

through 1974. The average retail instalment contract purchased on durable goods in 1974 ws $4,560 on new cars, $1,740 on used cars, $480 on household appliances and equipment, and $10,000 on mobile homes.[22]

Table 2.--Percent of finance company loans by occupation of borrower, 1974.

Occupation of Borrowers	Percent of Loans Made
Craftsmen, foremen, and kindred workers	35.2%
Operatives, laborers, and kindred workers	25.2
Service workers (including government, civilian, military personnel)	15.4
Clerical and kindred workers	7.5
Proprietors, managers, and office workers	6.1
Unemployed and miscellaneous or unreported occupations	5.2
Sales persons	2.8
Professional and semiprofessional excluding teachers	1.5
School teachers	1.1
Total	100.0%

SOURCE: National Consumer Finance Association based on survey data reported by finance companies which operated 4,065 offices in 1974.

Neifeld characterizes the typical finance company borrower as representative of the middle income group in our society; a composite picture would show that 80% are married with an average of two children, one in ten is widowed or divorced, and their average age is 30 to 40. More than half own cars, a third own homes; about three-fourths carry life insurance and one-fourth have some kind of savings. More than half are high school educated and 1 in 11 are college graduates; about half are union members.

Although many of these people have some protection against emergency in the form of accident and hospital insurance, one of their main reasons for taking out cash loans is to meet the impact of unexpected emergencies such as accidents, medical and dental care, car expenses, and job loss, where a need for funds arises suddenly and they need more money in a bulk sum than they have on hand. This group accounts for 25 to 30% of the volume of personal loan demand. The number one reason for finance company borrowing (40% of loan volume) is to refinance existing obligations or consolidate already existing personal debts.

> By consolidating his debts the borrower is able to clear up scattered obligations and replace them by a single debt that can be paid off in future instalments. The average borrower obtains new loans, simultaneously paying off the balance of the existing loan, twice before finally paying off his indebtedness.[23]

The companies surveyed by the NCFA in 1974 reported that almost two-thirds of their loans were made to present borrowers, persons who already had a loan with their company. The third main reason for borrowing is to pay for miscellaneous items: among loans in typical finance company offices would be those for car and home repairs, taxes and insurance premiums, vacations, moving expenses, school tuition, funeral costs, purchases of farm animals, horses, used cars, motorcycles, home appliances, and furniture; loans to assist relatives, finance childbirth, buy new clothing, and pay for winter fuel supplies. Although these are generally reasonable and legitimate uses for borrowed money, and the vast majority of borrowers do make good on their loan obligations to finance companies,

many apparently underestimate their will or ability to get the money paid back. Mathews found that among the bankrupted subjects of his study, finance companies were the second most important credit institution (the largest dollar amount of these bankrupts' debt was owed to real estate lenders). Mathews comments that finding loan companies to be important creditors to bankrupts, particularly those in lower debt ranges, "is not surprising since finance companies more than other financial institutions traditionally loan to a higher risk market which includes many of the potential bankrupts, e.g., relatively young members of the blue collar worker class who do not have the credit worthiness to qualify for other sources of funds."[24] Brosky's study of 300 bankruptcy cases in Seattle also showed that finance companies were the single most important credit group in his study; only 126 of his subjects owed money to banks while 261 were in debt to finance companies and 180 of them owed more than one company, some as many as seven. Brosky places the responsibility for bankruptcies largely on "overloading" of debtors by finance companies, suggesting that many borrowers are inexperienced in money management and look to creditors for advice on their capacity to handle debt, but finance companies are remiss in permitting customers to incur more debt than they can safely handle. He cites several extreme cases to make this point: Debtor C, for example, owed $7,000 to five different finance companies which constituted 97% of the total debt load which put him into bankruptcy. Debtor D, who owed $3,500 to four companies, had committed himself to 22 months of future income with this indebtedness.[25]

Many of the debtors interviewed in the present research had had experience with finance companies, and we will examine the nature of those relationships from the debtor's perspective in Chapter 4.

Consumer Credit Activity
by Commercial Banks

The commercial bank of today is a very different institution than it was a few decades ago. Historically banks have been established to serve the financial needs of businesses for commercial purposes and while many specialized institutions were growing up around them to serve special sectors of the credit market, banking policies remained conservatively business oriented and prejudiced against consumer financing. Their major interest was in commercial lending and a business's loan application could be considered in terms of its assets and profit-making ability; evaluating a consumer applicant's family budget to determine his qualification for a loan seemed alien to traditional banking practice--and bank management had genuine doubt as to whether working people could be trusted with borrowed money. Through the 1920s, with the exception of some real estate lending and a few single-payment loans made to individuals with high incomes, banks stood aloof from the developments in the consumer cash loan field and automobile financing. At one point the American Bankers Association made a study of new developments in the field and then advised its membership that lending for consumption purposes was unsound and not a proper function for commercial banks. This advice was disregarded by only one major

bank, and its opening of the first personal loan department in 1928 met with considerable disapproval in banking circles.

These attitudes changed with the serious decline in commercial lending suffered by banks during the 1930s and, out of an urgent need to find new outlets for their idle funds, they overcame their reluctance to enter the field of consumer finance. After their initial venture into personal credit the character of bank dealings with consumers soon moved beyond uncertain acceptance toward a concerted effort to create a new image and to broaden their services in order to attract a broader customer base.

> To bolster diminishing profits bankers exchanged their aversion to a positive hunger for as many small loans as they could get. They learned the attractiveness of instalment loans and the value of personal loan activity to the bank and to the community. Prior to 1935 less than 100 banks engaged in consumer instalment financing but in that year the ABA completely reversed its former position on consumer credit and encouraged member banks to seek new sources of revenue in personal loan plans. In 1938 they (in an American Bankers Association _Bulletin_) added a new rationalization for venturing into consumer credit. In the few years they had become conscious that their public relations had been poor and their former attitude too exclusive and standoffish. In consumer credit they now saw not only an opportunity to invest money profitably but also a practical means to create good will for themselves in the community, to humanize the banker as one anxious to help the little fellow in financial trouble.[26]

Since the middle fifties, with the tremendous expansion of consumer finance that accompanied post-war durable goods purchasing, modern banking has been marked by an aggressive stance toward consumer credit activities. They have become the dominant institution in durable goods and automobile financing and are rapidly overtaking finance companies' lead in the area of instalment cash lending. Commercial banks now account for half of all outstanding

instalment credit, including three-fifths of automobile financing, almost half of other consumer goods credit, and over a third of personal instalment loans, and they hold a third of all noninstalment credit in addition. Bank consumer loans together with home mortgages are now almost equal to the amount of their commercial and industrial loans.

While business-related credit remains the main function of commercial banks, their consumer lending activity covers a broad spectrum and they offer a wide array of other financial services to individuals as well. Unlike finance companies which deal exclusively in instalment credit and are best suited to meeting the demands of wage earners for small cash loans, banks are the only institution to provide the full range of forms of personal cash loans including conventional (single-payment) loans, ordinary instalment loans, and a variety of new types of instalment loan plans, some having unusual features devised by banks to distinguish their product from that of competing institutions. These include cash advances on bank cards and check-credit plans which were described earlier as forms of instalment credit most attractive to more affluent bank customers for convenience purposes. Also of greatest use to lower risk consumers are noninstalment cash loans, about 90% of which are made by commercial banks (over $11 billion in 1974). These single-payment bank loans are usually extended to accommodate borrowers engaged in some specific transaction and repayment is expected from the transaction rather than through a formal repayment program. They run for short periods, their average

size is much larger than instalment loans, and they carry a lower rate of interest. If collateral is required, depending on the borrower's credit risk relative to loan size, it is usually in the form of securities or other easily liquidated assets.

While banks offer these types of credit useful to certain kinds of customers which are not obtainable elsewhere, they also do a considerable business in instalment cash lending. Historically banks made instalment loans to finance consumer durables purchases and significant reliance was placed upon the value of the item as collateral even though repayment was expected to come from the borrower's current income; in recent years they have come to put emphasis more on the repayment source rather than the collateral value and banks now extend instalment loans for many purposes, ranging from the purchase of durables and consumer services (such as medical bills) to such unnecessary purposes as vacation expenses. A large share of bank instalment loans are made for the purchase of automobiles. Although other types of credit could be used to buy large durable items, many consumers compare the costs of other instalment financing with that of a personal bank loan and use the cheapest money available to them. In some cases people prefer to borrow directly for major purchases because of prestige or conventional association with a particular institution. Interest rates on bank instalment loans are generally lower than charged by finance companies--the common average rate is currently about 13.5% on a one-year loan. For smaller consumer loans a large part of the interest the lender receives is used to cover the costs of

servicing the loan rather than as payment for the use of bank funds. Servicing costs include a credit check on the customer, processing the loan application, providing records for the individual payments, following up on any late payment, and allowing reserves for possible loss due to nonpayment. In some cases these costs exceed the return and small loans, even at much higher rates, are seldom profitable. This was a major reason for banks' development of credit cards and check-credit plans; their rates are reasonably competitive with direct instalment bank loans and they provide a more efficient and profitable way to provide consumer credit.

Although banks compete directly with finance companies in the area of personal instalment lending, the two institutions have had somewhat different patterns of customer loyalty. Finance companies have been most successful in attracting and serving wage earners and customers of limited means while the credit associations of the professional and managerial occupation groups have typically been with the commercial banks. Bank customers tend to have higher levels of income and occupational stability; they represent a lower degree of risk and the amount they borrow is usually larger, in line with their more substantial incomes. The services of banks and the general approach they make to consumers have traditionally been of a different character than those of finance companies. The finance company stresses the ease and speed of obtaining credit and the simplicity and convenience they offer to borrowers in obtaining loans and making repayment.

> To broaden their customer appeal and serve the convenience of their customers, finance companies usually locate their offices in easily accessible sites, often in the so-called high rent districts. Such an office stands ready to accept loan applications, make investigations of the applicants, accept payments on the premises and by mail, as well as to handle delinquencies and other matters.[27]

Their advertising is atuned to the needs and convenience of their traditional customer grouping, mainly people with problems and wants that can be satisfied with promptly transacted loans of modest amounts. A sampling of the finance company advertisements appearing in the Meridian classified telephone book illustrates this orientation:

> If there's anything in this big yellow book you'd like to own, remember who can help you buy it. Call Avco Financial Services.
>
> IF CASH CAN HELP . . . Phone or see us now. Loans for whatever you need or want. Payments planned to fit your budget. For same-day service call Liberty Loan.
>
> Cash? You're good for more at--BENEFICIAL. Why settle for less money than you really want? Tell us the full amount you have in mind. You'll be surprised at how much you can get at Beneficial--where the money is.
>
> WE'LL TAKE YOUR APPLICATION OVER THE PHONE. It only takes a few minutes. In fact, if you call in the morning, it's not unusual to pick up your money the same day. And don't worry. There's no fine print--no fast talk. Borrow up to $1500. Call today--Pacific Finance.

As banks have become more active in consumer lending they have had to make adjustments in order to compete successfully in the instalment loan market against such competitors as finance companies. Cole cites studies of consumer attitudes which showed that one reason banks found it difficult to broaden their clientele (in the 1950s) was their projection of "a stern image as a symbol

of unemotional morality." One study looked into the paradox of loan company growth in spite of the fact that banks were lenient in accepting people for loans and offered personal loans at lower interest; it was concluded that the loan companies' big advantage over banks was their lower moral tone. The image of banks came across to borrowers as righteous and condescending. Cole summarizes the general changes in the approach of banks to consumers:

> Characteristically banks have been conservative financial institutions and have been so regarded by most consumers. The conservative nature of their management; the early stigma associated with consumer instalment financing; the legal requirements, in some instances, and the reluctance to charge higher rates so as to profit on small loans; and, in general, the bank's preoccupation with commercial needs--all these factors slowed the entrance of banks into financing of consumer needs. In addition, the bank's big handicap was its stern moral image. . . .
>
> Most present day banks have set out to overcome such negative attitudes and have accepted all kinds of consumer credit as basic to our economy. In adopting the policy that consumer financing was sound and aggressively seeking consumer credit customers, they have gradually become one of the dominant sources for consumer loans. To their good fortune, they have a large customer group which exemplifies stability and a low degree of risk.
>
> In expanding their present day customer group, banks have had to compete against other aggressive consumer loan institutions. Much of the increase in bank customers has been accomplished by adopting the sales promotion techniques which were known and proved to appeal to the masses. They have adjusted banking hours to conform to customers' convenience; provided friendly, convenient, comfortable and attractive loan quarters; and used the most effective advertising media and techniques. . . . The overall effect of this changed approach has been its success in creating a very different image of banks and bankers than had formerly existed.[28]

There is hard evidence to show that banks are now positioned to wage intensive campaigns for the patronage of consumer borrowers; this abstract of a recent study by the Federal Reserve Board is an example:

> "Competition Between Banks and Finance Companies: A Cross Section Study of Personal Loan Debtors." The study uses national survey data to get at the question of inter-industry competition. Multivariate profits analysis is employed to analyze the characteristics of personal loan debtors at banks versus the characteristics of debtors at finance companies. It is found that banks generally serve low risk borrowers while finance companies service the entire spectrum of credit risk including low risk customers. Although the mean profiles of debtors are different at the two institutions, there is substantial overlap in debtor characteristics. It is concluded that the considerable overlap of customers at the margin thereby implies a high degree of actual or potential competition.[29]

Inter-industry competition is the characterizing feature of today's consumer credit environment. The intensity of this competition is made clear in the graph on page 137, which reveals the success of banks' penetration into finance company specialties over the past decade. These comparisons show that a relatively small percentage of decline in automobile and other consumer goods financing by finance companies has put them far behind banks during a decade in which the amounts outstanding in these forms of instalment credit rose dramatically. Banks retained over half the auto financing market and moved far ahead in the financing of other consumer goods. Finance companies remain the dominant institution for personal instalment loans but their expansion has not kept pace with increases in the personal loan business.

Conclusion

The changing character of banks brings to light two distinct trends in the relationship between the aggregate of consumer credit users and the institutional structure which evolved to meet the need for consumer financing: the first, in the period between

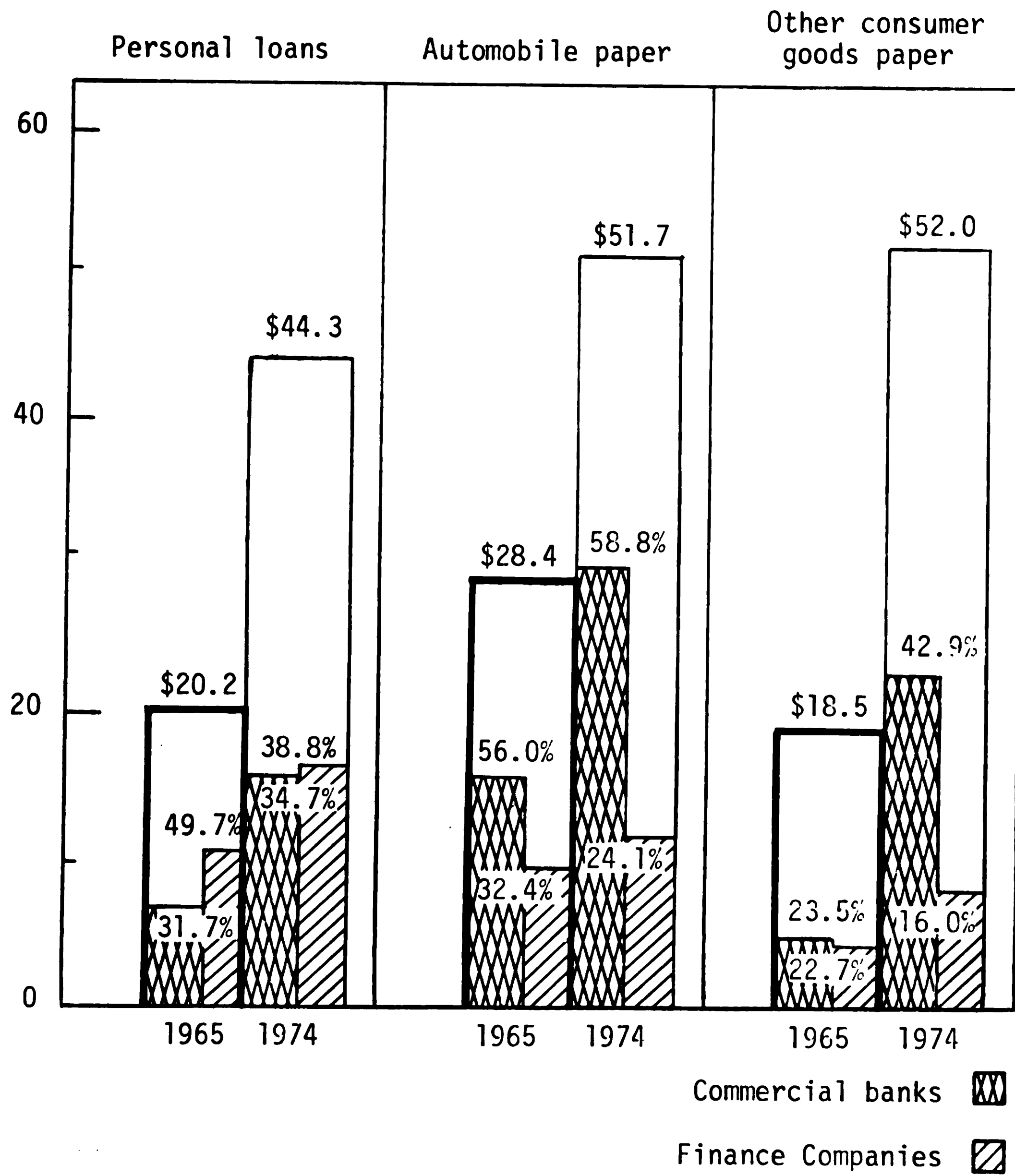


Figure 3.--Commercial bank and finance company share of consumer instalment credit markets, 1965 and 1974. (In billions of dollars)

SOURCE: Federal Reserve Board.

about 1915 and the 1960s, was marked by growth in consumer goods production and the rise of a system of financial institutions to provide the credit essential for nurturing a mass demand for those goods. In this period the consumer proved himself not only a good risk but an important force in the nation's economy and a major customer to the finance business. The financing organizations that were willing to serve consumer credit needs in the formative years gained an early foothold in a rich and growing market and in this era banks missed their chance. Reviewing these events in the changing world of banking, one banking authority points to their lack of vision and failure to adjust and change with the times as the explanation for lost opportunities when voids were filled by nonbaking intermediaries saying, "The classic example is seen in the early reluctance of bankers to understand consumer credit which led to the development of the great sales finance companies to finance the auto industry."[30]

Since the mid-sixties a very different kind of person-structure relationship between consumers and credit granters has been emerging. The credit suppliers of today are part of a mature and robust consumer credit institution, one which requires organizations to take a completely different approach toward credit users. In this new environment the goal orientations of credit granters have been transformed; their institutional aim has moved far beyond accommodation of consumers' needs. Consumers are now enticed and urged and even badgered into instalment buying and cash borrowing because their participation in a credit market on

a mass scale is essential to success in the credit industry. The defensive attitude of institutional suppliers of credit has given way to vigorous promotion of credit. For sellers of consumer goods, credit often represents a more profitable enterprise than the sale of goods itself; for lending institutions, consumer credit is a business in itself.

> The several cash lending institutions may be regarded as "sellers" of money. This concept of cash lending institutions clearly establishes them as MERCHANDISERS of credit. The supply and cost of money to cash lending institutions have their parallel in the supply and cost of goods to retail firms; their building of a customer group which seeks cash loans and the same group which will return when the need again exists has its counterpart in the goodwill, promotion, and repeat sales to satisfied customers so well understood by retailers of other commodities. The profit motive attracts capital, institutions, and personnel to this field just as this motive lends impetus to most economic activity. Sellers of money are confronted with the same problems as other types of merchandising establishments, and the degree of their success will often hinge on the same kind of merchandising methods used by successful merchants of goods and services.[31]

The importance of this change in the attitudes and activities of credit granters lies in its impact on the individual. Viewed from the consumer's side of the picture, the changed environment of financial institutions has given a different meaning to the use of credit.

> The original function of consumer credit was to sell merchandise and services. Credit in this sense had a social purpose whereby the goods or services bought on time had some human use. This was the ultimate function. Among other things it helped in the mass distribution of goods and raised the standard of living. Recently, however, sellers of credit discovered more profit could be derived from debt itself so that the sale of merchandise became subordinated to the sale of credit. This phenomenon of debt merchandising in part explains why the consumer is being subjected to a constant pounding to Buy Now, Pay Later.[32]

The consumer in this era of debt merchandising is a new breed, quite different from the turn-of-the-century factory worker with _need_ for cash loans and changed even from post-war consumers whose _want_ of middle-class consumer items generated an explosion in the production of goods and the supply of instalment credit. Today consumers of every social-economic level _expect_ credit to be available for virtually any kind of transaction and credit granters willingly meet and encourage these expectations. The current generation of young, employed American consumers has never known it any other way. For them credit is a right and "buy now, pay later" is a way of life. There is nothing uncommon or discomforting about indebtedness. Credit is the accepted way of acquiring the things they want and in most cases this system serves them well. For the relatively few who suffer misadventure through financial carelessness or an unexpected emergency the problems attending the inability to pay later can be difficult, for their creditors are as business-like about collecting as they are in making credit available. Those organizations that become relevant to the consumer with indebtedness troubles are our next concern.

FOOTNOTES

[1]See Paul Schervish, 1973, p. 52.

[2]Board of Governors of the Federal Reserve System, Supplement to Banking and Monetary Statistics, Section 16 (new), "Consumer Credit." Washington: 1965, p. 2. This document describes the purpose and history of Federal Reserve data, its sources and methods of compilation. Much of the information presented in the first part of Chapter 2 is based on this pamphlet but specific data are taken from more recent issues of the Federal Reserve Bulletin which is published monthly and contains the most comprehensive tabulations on personal indebtedness that are available.

[3]Louis Selig, "An American Looks at European Credit," Management. St. Louis: Associated Credit Bureaus of America, 1964, p. 22.

[4]Only about 12% of the instalment contracts they originate are actually carried by retailers. Retail instalment transactions are financed primarily by selling the instalment paper at discount to commercial banks and sales finance companies. We will deal with these operations at the end of this chapter.

[5]Lewis Mandell, 1972, pp. 7 and 69.

[6]Despite the slowed economy in 1974, bank card credit, both cash advances and credit for retail purchases, remained strong according to Federal Reserve data reported in early 1975. This is partly explained by the special cyclical behavior of this kind of indebtedness: "On the demand side, card credit may be used for a wide variety of relatively small purchases and consumers may increase their use of such credit during the early stages of cyclical downturns in an attempt to maintain customary standards of living. On the supply side, banks find it difficult to curtail card usage because for the most part such usage involves exercising lines of credit already authorized. In contrast, banks can restrict direct automobile lending more readily; since each auto loan requires individual approval, the banks can tighten lending standards and apply those standards immediately to all subsequent extensions of credit. Last year's expansion of indebtedness on card credit also reflected a trend at banks toward diverting to credit card plans many small personal and goods-financing loans. The reasons for the shift include the lower administrative costs of handling original and repeat extensions of credit under a card plan, the greater likelihood of generating additional borrowing, and the higher finance charges that are generally applied on credit card balances. "Consumer Lending at Commercial Banks," Federal Reserve Bulletin 61 (May 1975), pp. 268-69.

[7]Holders of T&E cards are regarded as "a different class of person" by credit granters. "Their average income is roughly double that of bank card holders and they pay up within 30 days--the poor risks have been screened out." Richard Stinson, 1974, p. 29.

[8]Robert Cole, 1976, p. 171.

[9]M. R. Neifeld, 1961, p. 16. The following section is taken from Neifeld's presentation, pp. 16-23.

[10]The law distinguishes consumer credit (credit for consumption with an individual as obligor) from credit for production involving business firms and a different rule of law is applied to each of the two categories of consumer credit, sale credit--arising directly from the sale of goods, and loan credit--involving a loan of money. The overall rule applying to sale credit is that the difference between a time sale and a cash sale is a matter of agreement between contracting parties and is of no concern to the general interest statutes. Sale credit requires the use of security instruments (chattel mortgage, conditional sales contract) the purpose of which is to enable the seller to repossess the goods if the agreed periodic payments are not made. With loan credit the rule of law is that a loan or forbearance of money is subject to and limited by general interest laws. These so-called usury laws set maximum interest rates which may be charged in the absence of specific legislation permitting higher rates.

In recognition of the economic fact that the cost of operating consumer credit is higher than the rate of interest permitted by general interest statutes, special legislation has been enacted by the states to accord commercial banks, industrial banks, credit unions, sales finance companies, and small loan companies the right to exceed the limitations of general interest laws. Ibid., p. 86.

[11]Ibid., p. 24.

[12]Ibid., p. 429.

[13]Data compiled by the Federal Reserve Board on dollar volume of retail charge account credit from 1929 to 1974 are presented by Cole and it is his analysis and interpretation of these data in terms of percentages which are used here. Robert Cole, 1976, pp. 160-61.

[14]Carl Dauten, 1956, p. 11.

[15]Rolf Nugent, 1939, p. 54. Nugent's book includes a summary account of the early growth and development of consumer credit in the United States. This has served as a reference for much of the material presented in this chapter. See Nugent, pp. 42-64.

[16]Robert Cole, 1976, p. 122.

[17]Charles Neal, 1968, pp. 152-53.

[18]Instalment credit purchasing of automobiles (and certain other types of consumer durables) follows an established pattern: after the dealer and customer have agreed on a price, the customer makes a down payment, supplies the necessary information for establishing his credit worthiness, and signs an instalment sales contract prepared by the dealer for the remaining cash balance to which finance charges are added. The dealer then delivers the debt instrument to the finance company to be sold for an agreed or formula-fixed price and the dealer is paid the purchase price immediately. (Arrangement will usually have been made at an earlier time between the dealer and the sales finance company to provide for such transactions.) The finance company having purchased the contract proceeds to collect the instalment payments from the consumer as they come due. Each instalment payment amortizes the debt so that the entire amount is liquidated upon maturity of the contract, a feature intended to provide a sound relationship between the depreciation rate of the financed item and the consumer's equity in it during the life of the contract. The income of the finance company derives from the difference between the face of the note as paid by the instalment purchaser and the discounted amount at which the note is bought from the dealer.

As a separate but related function, sales finance companies also provide inventory financing for dealers, an operation known as floor planning or flooring.

[19]M. R. Neifeld, 1961, p. 311.

[20]Victor Andrews, "Captive Finance Companies," Harvard Business Review, July-August 1964, p. 82.

[21]"NCFA Research Report on Finance Companies in 1974," Washington: National Consumer Finance Association, July 21, 1975, p. 3. The information reported is based on data submitted by 341 finance companies which operated 15,903 offices in 1974. These companies held $13,565 million in personal loans, an amount equal to 79% of the personal loan outstandings of all finance companies as reported by the Federal Reserve Board.

[22]Ibid., p. 8.

[23]M. R. Neifeld, 1961, p. 314.

[24]H. Lee Mathews, 1969, p. 44.

[25]John J. Brosky, 1965, pp. 16-17, 50 and 69.

[26]M. R. Neifeld, 1961, p. 341.

[27]Robert Cole, 1976, p. 197.

[28]Ibid., p. 186.

[29]"Research on Consumer Credit, Early 1975," Washington: National Consumer Finance Association, 1975, p. 25.

[30]Herbert Prochnow, 1974, p. 320. The quote makes reference to "intermediaries"--these are institutions having the dual purpose of receiving funds from savers and lending to borrowers as do banks, savings and loan associations, and credit unions. Business organizations which comprise the consumer credit "industry" are excluded from this definition. These include sales finance companies, small loan companies, and industrial banks whose primary purpose it is to finance the consumer through direct cash loans or the purchase of instalment sales paper.

[31]Robert Cole, 1976, p. 176.

[32]Hillel Black, 1961, p. 216.

CHAPTER 3

THE ORGANIZATIONAL ENVIRONMENT OF INDEBTEDNESS CAREERS

The Nature of the Consumer Debt Problem

We have been looking at the vast financial structure through which billions of dollars flow to be used for consumption purposes by individuals. We have seen that the widespread use of credit has brought material abundance to large segments of the population and has been largely responsible for the phenomenal growth of the American economy. This is the positive side of the picture, but the total outstanding amount of consumer credit may also be viewed as nearly two hundred billion dollars in outstanding personal debt. One might ask if this is not too great a debt burden--what does it mean for borrowers as a whole and for the American economy? Economists observe that credit has enabled consumers to accumulate great masses of consumer capital assets and this should be taken into consideration. A consumer balance sheet using aggregate data pertaining to late 1974 would show that consumers had total assets of $3,509.3 billion and total liabilities of $651.5 billion, leaving a consumer net worth of $2,857.8 billion. That net worth reflects an owner's equity of 81.4% of consumer assets--(this measure of financial condition indicates stronger positions with higher percentage). The ratio of total assets to all debts was 5.4 to 1, and for assets to debts other than home mortgages it was

10.4 to 1. In view of such figures one economist commented, "Based upon these customary credit ratios, the consumer, in the aggregate, was in very good shape."[1] The Brookings Institution looks at it from the perspective of bankruptcy economics, and they take a similar view: "Total private debt has grown rapidly in the last two decades but there is little empirical evidence that the debt burden is too great for borrowers as a whole."

> A willingness to seek and extend credit is essential to the smooth functioning of the U.S. economy, whose institutional structure efficiently accumulates the nation's savings and channels them into the hands of borrowers. In the process, situations inevitably arise in which the borrower is unable or unwilling to repay. Indeed, the absence of credit losses would be an indication of economic inefficiency, since it would suggest that the marketplace was not being allowed to work and that lenders were withholding funds from marginal borrowers as a class, even though such borrowers would be willing and able to pay interest rates sufficient to cover losses on bad debts.

The Brookings people hold that although some $2 billion, about 0.2% of the private debt outstanding, is lost to creditors each year by discharge in bankruptcy, "This may be viewed as a cost of the existing credit system--a cost that is widely diffused throughout the economy."[2] In terms of its overall effect on the money and credit situation, consumer debt carries much less weight than either the debt of private business or government. In contrast to the latter, where large amounts of debt are owed by a few units and changes in the policy of any one may have a broad impact on the market, no single consumer unit could have great economic effect because there are millions of consumers, each owing a relatively small amount.

It appears then that in spite of the great magnitude of outstanding consumer debt, the credit system, on balance, benefits the aggregate of consumers. Unpaid consumer debt is an expected outcome of this system, it is the price we pay for broad, liberal credit granting. Debt loss represents only a small fraction of the credit extended and it is distributed across millions of consumers so that it poses no threat to the economy. In short, consumer debt is not so much an economic problem as it is a human problem.

Consumer Debt as an Individual Problem

Debt loss is small relative to the billions of dollars loaned to consumers each year and it is absorbed by paying consumers and by society as a whole. Because individuals who pay their debts in full far outnumber those who don't, it has been possible for those who sell credit to widely extend such privileges. Americans have a history of promptly paying bills and the credit-collection industry relies to a great degree on the American consumer's record as a dependable bill payer.

> Deeply inculcated into the American conscience is a bill-paying ethic that is rooted back in the small-town tradition of face-to-face commercial dealings which held debt disreputable and default unthinkable. We are traditionally a nation of bill payers and for the most part we remain so. We pay, but not necessarily because we are honest, claims E. H. Barnes, a former psychology instructor who directs a large Chicago bill collection organization: "Prompt payment of debts among the majority of people is the result of a complex process of social conditioning involving parental teaching, social pressures, vague fears of legal consequences and so on."
>
> But the bill-paying ethic, which once meant cash payment in toto for goods and services upon presentation of the bill, has been drastically redefined. We no longer expect to operate our home economics in the black. In fact, sociologists

> now define family solvency in terms of "debt-income ratio." Any disturbance of the delicate debt-income ratio, however, is sufficient to push many of us over the line into serious financial trouble.[3]

Our main interest is in the consumer debtor who, by miscalculation or some disturbing event in his daily life, has upset the balance between his resources and the debt load he can safely carry. Once the line has been crossed he is subject to the psychological pressuring of collectors which is largely an exploitation of motivations underlying the "bill-paying ethic" and subtle manipulation of debtors' fears.

We begin by asking, Who is the typical consumer debtor? What are the sort of circumstances that might lead him to a troublesome situation with debt? Part of the answer is found in an address before a Consumer Credit Conference by Professor of Marketing Reavis Cox. Commenting that recent studies of the spending and borrowing of consumers as individuals (in contrast to aggregative studies of consumer behavior) had made much more information available on consumer credit use, he spoke as follows:

> From these stores of data are beginning to emerge some fairly definite ideas as to what consumer debtors are and are not like. One conclusion to which they lead us is that the family that makes no use whatsoever of consumer credit in any of its many forms is a very rare family indeed. The belief that only the improvident and careless borrow to consume, we now can hold true only if we call virtually the entire population improvident.
>
> We have learned also that because the consumers who use consumer credit in one form or another are enormously numerous and vary widely in almost every regard, no real meaning can be attached to the term "typical consumer debtor." There is simply no such thing as a typical consumer borrower. . . . The consuming units that buy something or other on installments in a normal peacetime year show only a slight tendency to cluster more heavily in the middle income classes than

> does the population itself. They are in fact scattered throughout the full range of income. They live in all regions of the country and come from all national and racial stocks, all age groups and family sizes.
>
> Information now being accumulated also makes possible clearer conclusions concerning consumers who get into trouble because of debt. We have ample evidence now to conclude that only a small percentage of consumers get into serious trouble because of their use of consumer credit. We have been adequately warned that for many consumers who do get into serious difficulties, their troubles as debtors may be symptoms of the social ills from which they suffer. . . . The roots often lie in factors quite different from the misuse of credit that serves to precipitate their trouble and bring about their downfall.[4]

Authoritative information has been compiled over the years through the various series of consumer surveys conducted by the University of Michigan Survey Research Center. On the basis of these data on the distribution of consumer income, assets, and debt, and on durable goods expenditures and use of instalment credit, some widely held misconceptions about credit users are being set right. These data show that, contrary to popular belief, lower income people are not the most common users of credit and credit is not a need or emergency phenomenon, sought to tide the family over a crisis or reluctantly accepted out of necessity. Statistics show that credit is most commonly used by middle-class families, those with (early 1970s) incomes between $10,000 and $15,000. The Survey Research Center reports that 60% of these families owed some instalment debt in 1971 and, according to national four-year averages from these surveys, people in this income level also carry the largest debt load. Those with average annual incomes of $12,500 to $14,999 had an average instalment

debt of $1,247, compared with $659 for those earning $5,000 to $5,999, and $328 for low-income people in the $3,000 to $4,999 bracket.

Amount of debt varies considerably with family life cycle factors. The Survey Research Center's Surveys of Consumers 1971-72, which reports outstanding instalment debt among American families, found that

> Younger families typically are more prone to borrow than are older families; 66% of families with heads under age 25 and 67% with heads between 25 and 34 had outstanding debt in 1971. This proportion decreased with each age group after the age of 35.[5]

In general, the heaviest users of credit are families with children, heads of the household under 45 years old, and annual incomes of $10,000-$15,000. Two out of every three families with these characteristics are in debt. Understandably, credit is most useful to young families who are just beginning to accumulate assets, furnishings, and personal belongings at the same time that they have the heavy expenses of growing children. While these families do not have big incomes, for them occupational advances are particularly frequent and income expectations are optimistic. For those with stable occupations and incomes and good prospects for continued increases in earnings, their heavy use of credit as a quick way to acquire things is not necessarily dangerous.

The extent to which debt represents a burden may be evaluated in terms of the amount of family income that is committed to debt repayment. Changes in family needs, as the age of family head increases, are reflected in the level of commitment for debt repayment by age groups. The Michigan studies show that the

families with 10% or more of their disposable income committed to repayment of instalment debt are distributed by age group in this manner: young families, head under age 25, 39% and age 25-34, 26%; growing families, age 35-44, 19% and age 45-54, 22%; contracting families, age 55-64, 14%. As to be expected among retired families, only 10% of those age 65 to 74 and 3% of those over 74 had this much of their income committed to debt repayment.

According to findings reported by the 1970 Survey of Consumer Finances, an instalment debt burden of 20-40% or more of the family income is not uncommon; 16% of families with heads younger than 25 and 10% of those in the 25-34 age group lay out at least one-fifth of their incomes in instalment payments; 21% of families with children under 6 and household head younger than 45 had a payment-to-income ratio of 10-19%, and 11% of such families had a higher payment-income ratio.[6] The perilous position of young families with an unfavorable debt-to-income ratio is illustrated in this news item:

> When George P. got married five years ago, he and his bride took out a $500 loan to furnish their new apartment. Two children, nine credit cards and seven loans later, the young bank clerk owed over $6,000, more than he earns in six months.
>
> Financial experts say that George, who doesn't drink or gamble and is in his early 20s, is representative of millions of Americans who have gotten into debt over their heads.[7]

Although there is no clear-cut formula for defining over-extension of indebtedness that fits all families in all situations, experts in family money management have attempted to work out rough guides for determining how much debt is too much. Dr. Gwen Bymers, a

Cornell University Professor of Household Economics, has developed a "vulnerability index" designed for helping families to decide "whether or not to take on another debt." The decision is made on the basis of three factors:

1. The amount of assets available to meet emergencies.
2. The length of time required to pay off present instalment debt.
3. The amount of income committed to instalment debt repayment.

Dr. Bymers makes the following recommendations in terms of these factors:

1. The family should have at least $200 in a liquid reserve fund. (In other references to this index the recommended minimum is $500 and Dr. Bymers admits that $200 may not be an adequate amount.) "Two hundred dollars was used as a minimum criterion because nearly half of the families reported liquid assets this low."

2. On the average, present instalment debt should not be allowed to run longer than one year. Major debts, such as car loans which may run for several years, should be balanced by prompt charge account payment. "The longer it takes to pay off store accounts, the more is shelled out in finance charges."

3. "Instalments debts (this doesn't include house payments) should total no more than 20% of take-home income. The risk increases as the percentage rises."

Indebtedness is evaluated by this index as follows: "A family which fails to measure up to these recommended standards in all three areas would be placed in a 'very vulnerable' category where a small financial setback would be serious."[8]

Financial columnist Sylvia Porter, discussing similar guidelines on how much debt is too much, indicates how most American

families measure up to such standards. She agrees that families should not owe more than 20% of yearly after-tax income.

> The average family now uses about 15¢ out of every after-tax dollar to repay various instalment debts, 23¢ if rent or house payments and taxes are added in. This should make one point abundantly clear--if you are forced to earmark 25¢ or more out of each dollar for payment of instalment debts alone you're heading for major financial trouble if not catastrophe.

Family assets provide another debt limit guideline; to be only average all family assets (savings, equity in the home, etc.) should exceed debts by seven to eight times.

> The average U.S. family has assets worth 7.5 times the amount of all its debts. But averages are statistical myths. If yours is a young family, for instance, you well may be spending more than 15¢ of every after-tax dollar to repay your instalment debts (although not as much as 25¢) and you still may be in a financially sound position. Or the value of your assets may be nowhere near 7 to 8 times the amount of your debts, for you are in an expensive period of your life and you haven't had much time to build up a nestegg. In other words, yardsticks must be applied with common sense.[9]

From this kind of information a general picture of the troubled consumer debtor and the conditions leading to his problem begins to emerge. To summarize, thus far we have seen that no one type of consumer debtor is typical. Although young, middle-income family heads are the heaviest credit users, virtually every American consumer is a participant in the credit system. The consumer debtor can certainly not be typified as poor and needy; nor can all default debtors be seen as irresponsible or dishonest. Heavy credit users do not necessarily become defaulters. As the preceding paragraphs suggest, young married couples with children, who have good incomes ($10,000 to $15,000 a year), are the most likely to fall behind in their credit payments, but over-indebtedness can happen

to anyone. Debt problems do not depend solely on credit use or income; it is credit users with high ratios of debts and payments to assets and income who are good candidates for major financial trouble. There are some guidelines to help them evaluate their debt burden but many credit users fail to recognize or to observe their own safe level of indebtedness. Although high vulnerability does not necessarily mean that a debtor will default, an unforeseen event putting additional strain on the family budget is very likely to lead to a financial crisis. The consumer debtor moves gradually into a precarious debt position as a result of a combination of factors; in many cases the debtor may not realize the gravity of his situation until he has begun to hear from his creditors. We will now consider the situation of the consumer debtor who is headed for trouble in this way. How a consumer debtor comes to the brink of debt default is our immediate concern. One important factor, suggested by the following excerpt from Changing Times, is the insidiousness of indebtedness.

> The overuse of credit is like an illness that creeps up without your realizing what's happening. And almost anyone is vulnerable, even the seemingly healthy. All it takes is a bit of financial carelessness, a false sense of security, a few concessions to the temptations of "easy payments."
> An unexpected cut in pay or some big, unforeseen expense might bring the problem to a crisis you can't ignore. More often it develops slowly, giving off a number of warning signals that could avert danger if only you heed them. The very first symptom of trouble may, in fact, be a condition you've already grown used to: Each month you find yourself struggling to make ends meet.[10]

The writer notes that the consumer debtor will undoubtedly find that this feeling of being hard-pressed is widely shared but if there are

other indications of overindebtedness as well he may be headed for trouble. The article includes a set of "early-warning signs" intended to help the consumer debtor to evaluate his situation. A summary of these criteria of overindebtedness is presented below.

According to this set of guidelines, the debtor is destined for serious financial difficulties if he--

1.--depends heavily on extra income (overtime, bonuses, moonlighting) to get over rough spots.

2.--finds it harder and harder to save; his passbook shows more withdrawals than deposits and he cashes in savings bonds long before they mature.

3.--doesn't have an adequate reserve to tide him over a major upset like a pay cut; he isn't prepared to replace big items like household equipment.

4.--robs Peter to pay Paul. For example, he dips into funds accumulated for insurance premiums to pay the water bill.

* * * * * * * * * * * * *

5.--shuffles bills once paid promptly to the bottom of the pile and waits longer and longer to pay them.

6.--can't figure out where the money goes. He doesn't believe it was spent foolishly, but there's not much to show for all his outlay.

7.--has lost track of what his debts add up to and has to scrounge for money to make monthly payments. He is using a lot of credit and because so much goes for finance charges the balances don't seem to decrease much.

8.--is beginning to get reminders about overdue payments from some of his creditors.

* * * * * * * * * * * * *

9.--uses credit to purchase things like clothing that he should have anticipated the need for and that he previously bought with cash.

10.--takes out new loans to repay old ones or asks for extensions in order to have lower payments spread out for a longer time.

11.--pays only the minimum amount due each month on charge accounts and has accounts all over town.

12.--is in danger of overdrawing on his checkbook or, if his checking account has an overdraft loan feature, he is using it frequently.

Taken as a whole, this set of indicators is generally descriptive of the troubled debtor's situation. His habitual patterns of spending and money management are not working and piecemeal attempts to cope with the problem are only aggravating it. His unsystematic efforts to handle immediate difficulties as they arise--holding off creditors with minimum balance payments or taking out loans to pay bills--are adding more to the debt burden. The debtor is only beginning to realize that he may soon be in serious trouble; the situation has not yet been formulated into a general problem that would suggest a comprehensive solution. Lacking the means and ability to bring the situation under control, the debtor may be moving inexorably toward a condition of debt default.

Implicit in these debt-trouble indicators are at least three factors which help to explain how he has come to be in this situation. We have rearranged the 12 items taken from the article to form three groups in order to show how they correspond to these three contributing factors. The first is lack of an adequate financial cushion to protect the debtor when unexpected events make

it impossible to meet regular debt payments. Failure to keep within safe debt limits in terms of such criteria as those suggested above is reflected in items 1 through 4. Second, poor debt management--seen in items 5 through 8. Consumer credit users seldom become over-extended because of careless accounting and record keeping--forgetting to pay bills, not writing check stubs, and the like. Typically the trouble begins with failure to adjust spending and charging to changing conditions--job layoffs, inflationary price increases, added demands on the budget by a growing and expanding family. When the paycheck doesn't reach it is the debtor's lack of skillful debt management that causes his situation to become increasingly serious. The third factor is encouragement by credit-granting organizations. Items 9 through 12 suggest how this is a contributing cause: instalment credit is extended (by revolving charge accounts) for the purchase of soft goods such as clothing; consolidation loans (often called bill-payer loans) are easily available from finance companies; banks offer overdraft plans (related to the check-credit plans) which are essentially a line of bank credit. These plans have the disadvantage of being somewhat inflexible; in times of changing economic conditions lending standards can quickly be tightened on regular loans but it is difficult to curtail open credit lines already authorized. Item 11 suggests the danger to troubled debtors of the optional revolving account such as retail and bank credit cards offer. In Chapter 2, in connection with bank-finance company competition, we noted the

importance to these institutions of the marginal credit risk and this is especially true of bank card holders.

> Banks are in a peculiar position. They thrive on the guy who doesn't pay his bills on time, the guy who doesn't mind going into debt and staying there. They don't make any money on card-users if they pay up right away--in fact they lose money.
>
> Some skeptical observers, eyeing the ease with which anybody can obtain a credit card, insist banks ought to clamp down. But banks have a problem. Says one industry executive, "If they cut back they'll be eliminating the people that are paying their way--the slow payers. Their whole business depends on people paying interest."[11]

It is not difficult to see how a credit user with a good income might slide into an over-extended situation; attempting to extricate himself, he uses credit made available to him under his previous financial circumstances. Little deterrent is offered by credit granters--until he is well over his head in debt. Return of a credit card, for example, is not requested until long after collection efforts begin.

> Bank-card customers are offered a revolving credit arrangement where they need pay only a small percentage of their bill each month to remain in good standing. A customer who does not pay his bill in time is greeted first with one or more letters from a computer. If the card holder still does not pay, he will get a personal letter or phone call. Finally, his card will be invalidated.[12]

The consumer debtor who finds himself in one or more of the 12 situations listed above may be headed for trouble. He might still be able to bring his affairs under control but, with debts far out of proportion to resources, any other problem is likely to push him over the line from debt delinquency to debt default and perhaps to bankruptcy. One quick route is a family medical problem--illness, injury, a new baby; a quirk in the economy, such as a

recession or an inflationary jump, sends many a pressured bill-payer into serious difficulty; and job problems--layoffs, strikes, loss of overtime--can be a calamity. Marital trouble, particularly divorce which commonly follows upon the trauma a debt-ridden family undergoes, is another trigger of financial emergency. The fact that crises such as these have been identified as major causes of bankruptcy shows the impact an unexpected event can have upon an ordinary consumer debtor when he is in a deteriorating financial situation.

> Research by the Brookings Institution shows the average individual bankrupt to be a blue-collar worker, about 40 years old earning about $130 a week, married, with two children and carrying an average debt load.
>
> David Stanley, director of the research project, said that the average bankrupt could have gone along making his payments if some crisis had not occurred--loss of overtime pay, birth of an extra child, medical bills or divorce.[13]

Once the line to default is crossed the collector's threats begin. The sections which follow focus on organizations which have to do with debt enforcement. There we will see how debt delinquency is defined by the routine procedures of credit departments and the way in which the "line" marking debt default signals a new stage in the collection process and the beginning of coercive enforcement measures.

Structuring the Indebtedness Career

Perspectives for Viewing the Enforcement Process

This phase of investigation explores the process of debt collection and its structuring of individual indebtedness careers.

These phenomena are examined against the background of the consumer credit system as it was described in the last chapter. The general milieu which provides the context for viewing debt enforcement activities is conveniently summarized in the following remarks:

> Our society generally regards the widespread use of credit as necessary to maintain high levels of production and employment. Reflecting this view, sellers and financing agencies use credit primarily as a promotion technique to sell goods and secondarily as a financing device. Credit sources and consumer credit users share a joint responsibility for the use of credit and also share in its beneficial effects on the economy.
>
> Bad debt losses are a disadvantageous by-product of credit extension and one which is inevitable. . . . They are absorbed by consumers who pay their debts in full and are relatively unimportant in impact since they are small in relation to consumer sales.[14]

The following points, developed in our discussion of consumer credit and summarized above, place consumer debt and its collection in a proper perspective and they should be kept in mind as we turn attention to debt enforcement: widespread use of credit is important to our economy and beneficial to our society; mass consumption and credit use have become accepted social norms; credit is expected by most consumers and encouraged by sellers of goods and credit; since profitable credit enterprises require that credit be extended to marginal risk users, debt collection is a necessary process; inevitably some debtors will default but defaulters are few in proportion to debtors who pay.

> If we [creditors] accepted only prime credit risks and if everyone had the ability and willingness to pay bills promptly, there would be no collection problems. However that seldom occurs. As a matter of fact, if a credit

> manager had no collection problems and no bad debt losses he would not be a good credit manager. Credit creates volume and sales-minded credit managers naturally assume some "calculated risks."[15]

On balance, the risk taken by credit granters in accepting marginal customers is not detrimental; creditors' losses in bad debts are small relative to the amount of consumer goods sold and the volume of credit granted to consumers. "The over-all national average of bad debt loss for all kinds of business is less than one percent of total credit volume."[16] Moreover, bad debt losses (debts discharged in bankruptcy or written off by creditors because collection is inexpedient or impossible) are considerably lower than debt delinquencies since a large portion of delinquent accounts are eventually collected. Of the vast number of people who use consumer credit, only a fraction are defaulters and relatively few are delinquent.

> It has been estimated that out of 100 open-charge and instalment customers, 81 will pay with reasonable promptness and 18 will show varying degrees of slowness and will require some mild effort to collect the 30-day charge in less than 90 days and to secure the second payment on the instalment transaction. (These will not always be the same individuals but they will fluctuate because of illness, temporary overbuying and various other circumstances.) The remaining 1 out of 100 will turn out to be troublesome and may prove to be absolutely unworthy of having been extended credit.[17]

Prompt payers, the 8 to 9 out of every 10 consumer debtors who usually pay in response to the simple suggestion that payment time has arrived, present little difficulty to creditors. Among those who represent slow payers, however, there are debtors who fail to perform on their commitments to creditors for a variety of reasons; the irresponsible or imprudent credit user and the

procrastinating debtor are among the fewer than 20 in 100 who pay their bills late, but so is the ordinarily good payer whose vulnerable financial situation could not withstand an unexpected misfortune. The occasional debtor who sets out to deliberately evade payment may also be among the slow payers until his intentions are revealed in the collection process. Clearly, different strategies are required in order to deal effectively with the various debtors included in this heterogeneous grouping. It becomes the task of debt enforcers to distinguish among debtors in terms of their reasons for debt delinquency so that appropriate measures can be applied. They must identify the deliberate evader and separate the "unfortunate" debtor, who is prevented from paying promptly by extenuating circumstances, from the irresponsible or indifferent debtor who requires immediate and vigorous treatment.

The collection system solves the problem of work volume by being largely routine in its operation. Achieving its objective--to get the money promptly, economically, and without loss of customer good will--is complicated by the need to recognize causes of debt delinquency and to operate in such a manner that standardized procedures are applied selectively to fit debtors' varied characteristics and circumstances. Debt enforcers attempt to manage this problem by developing classifications of debtors and tailoring collection routines to fit these classifications. The classification system described in this excerpt from a training manual on credit and collections prepared by the International Consumer

Credit Association represents the way in which typifications of debtors are developed by debt enforcers.

> There are three main classes of debtors when handling collections. First, those who are good payers because they usually pay promptly. Second, are those who are slow but pay ultimately. This class includes the indifferent type which lets the creditor wait for the money while they spend their money for pleasure and other pursuits. Also, in this group are good paying accounts who are prevented from paying promptly because of misfortune or other causes. In the third class are those who purposely evade payment; and no matter how careful a credit granter may be in accepting applicants, a few unworthy ones are granted credit. When the collection department commences collection efforts these persons are discovered.[18]

This basic categorization of consumer debtors into prompt payers, slow payers, and evaders is generated in the workings of the debt enforcement process. Creditors and collectors develop these broad classes of debtor "types" in terms of their experience with aggregate consumer debtors and they then form the basis for different enforcement strategies which are appropriate for each type. Deciding upon what policies and practices apply to the best and worst of credit risks is relatively straight-forward since the qualified objectives of the collection system are not conflicting in these cases. There is little danger of losing the good will of prompt payers because the use of harsh measures is unnecessary; "deadbeats" can be handled with no holds barred for they are not desired credit customers anyway. These distinctions are empirical rather than theoretical. That they are the product of the collection process and are applied in the practical conduct of debt enforcement is evidenced by the following quotation from an authoritative credit management text.

> Customers who place themselves in the desirable classification of prompt payers solve one part of the problem of classification and remove themselves as possible collection cases. Certainly in these cases if any pressure is ever needed, it will be applied gradually and with exceeding slowness. Included in this classification are those debtors who, although they may be having some difficulty in making payment, respond fully to any inquiry with a complete explanation as to reason for nonpayment and with careful analysis as to when full payment may be expected.
>
> At the other extreme, if it appears obvious that a mistake was made in granting credit in the first place, little is to be gained from using gradual and weak devices. Experience has shown that such individuals respect only strong efforts and immediate threat of legal action may produce results not obtainable by less vigorous attempts.
>
> Between prompt payers and known deadbeats is the group of debtors with whom judgment and experience will have to play a vital role in determining just how strict to be, just how severe a collection method to use, and just when to apply the pressure. Thus it is with these debtors that the problem of classification is most acute.
>
> Collection work would be easier and the results better if there were some magic way in which each account could be immediately and accurately classified as to the reason for nonpayment. Sorting devices to perform such miracles unfortunately are not yet available . . . the responsibility for any classification rests with the credit personnel involved.[19]

The debt enforcement system provides its personnel with a typology of debtors and a set of strategies for each type, but the successful functioning of the system depends upon accurate placement of individual debtors into the proper classification to receive appropriate treatment at any stage in the enforcement process. This responsibility lies in the hands of the enforcement agents who are engaged in direct interaction with consumer debtors. Enforcement agents throughout the enforcement process, from credit risk evaluators to collectors armed with the most drastic of collection devices, are required to make determinations about consumer debtors on the

basis of their understanding of the reasons behind their credit-using and bill-paying habits.

Obviously debt enforcers cannot know what these reasons are, what motivates the consumer debtor's behavior. They deal with uncertainty by attaching meaning to whatever pieces of evidence can be derived from histories of the individual's past performance as a debtor and from assembled facts about his personal and social situation. Considerable significance is attributed to the limited information which they receive about his employment, residence, the kind of debt obligations he has, and who his other creditors are. From these the debt enforcer infers the characteristics of the debtors; stereotypes based on social characteristics seen as causally linked with default facilitate the leap to assumptions explaining his behavior as a debtor in terms of the traits ascribed to him. A particular address or occupation is often enough for determining that a slow payer is a "will not" rather than a willing but troubled "can not."

Debt collectors rely on interpretative procedures for identifying the grounds of debtors' failure to pay promptly and frequently it is debtors' <u>inaction</u> which must be explained by conjecture. Order is imposed on ambiguity by the strategies which evolve in the course of debt enforcement. Differentiation of debtors is accomplished in large part by organizing enforcement activities in such a way that debtors are maneuvered into self-placement. It is clear from the quotation above that debtors who volunteer their reason for nonpayment and offer some constructive

plan for making repayment are placing themselves in the category of prompt payers who require little pressure. By contrast, those who fail to respond to early inquiries continue to be prodded; gentle reminders are followed by dunning messages designed to provoke nonresponsive debtors. Rock has likened this procedure to a serial testing system. "Enforcement is organized around a serial testing system. Debtors who resist all a creditor's advances have failed his tests and are inevitably defined as 'tough,' recalcitrant and deviant."[20] Thus a slow-paying debtor is moving from tentative placement in the category of "unfortunates" whose circumstances have prevented his making prompt payment; he is reidentified and exposed to the treatment accorded irresponsible debtors. His responses to further testing may prove to the collector "that a mistake was made in granting credit in the first place." From the debt enforcer's perspective, the debtor's identity "appears obvious"--he has placed himself among the ranks of deadbeats with whom only strong efforts and immediate and dire threats will produce results.

It is from these unique features of the debt enforcement process that indebtedness derives a career-like structure. Debt enforcement is made up of deliberately phased stages, each with its own personnel and each designed to be more punitive. Although the enforcement system provides for a complete series of increasingly severe sanctions, few debtors run the whole gamut. Debtors who respond to reminders or early mild collection efforts are filtered out; others are candidates for more intensified enforcement

measures. At each stage there is a sorting and classifying of debtors and only those who qualify themselves for progression are moved through successive stages of enforcement. As the debtor is propelled through an ordered series of experiences, the meaning of his failure to pay is interpreted and reinterpreted by debt enforcers and his situation is evaluated on the basis of their practical experience with similar debtor "types." With the failure of each set of enforcement sanctions to produce results, a new identity is imputed to the debtor and each time he is labeled anew he becomes eligible to experience sanctions of greater severity.

A brief survey of the organizational activities making up the debt enforcement process is contained in the remainder of this chapter and the features we have been discussing will be brought to light in the course of this review. We will look first at credit departments and their procedures for screening credit applicants and for monitoring the accounts of the credit granter. In terms of indebtedness as a career, these functions constitute the initial phases of debt enforcement. The first stage begins with the negotiating of a credit transaction by a consumer following the approval of his credit application; the second begins with the creditor's identification of the account as delinquent. Next we will review the preliminary and relatively mild attempts by creditors to collect delinquent accounts. The multistage collection process of creditors terminates when efforts to maintain customer goodwill are abandoned. The final phase of enforcement commences when the account is referred to debt collectors for more drastic measures.

The workings of collection agencies are examined next; we will look at the techniques and strategies collectors employ and see how they make determinations as to which defaulters are to be subjected to legal actions available to collectors for inducing payment. We will also consider some alternatives debtors have for escaping the pressures of the collection process.

The purpose of this survey is to describe the actual practices of organizations responsible for the enforcement of indebtedness so that we may show how these practices have the potential for imposing deviance upon the individual undergoing an indebtedness career. We are guided in this presentation by Rock's comprehensive analysis of the collection process as a social control mechanism. Rock identifies the features of the debt enforcement system which result in debtor identifications and the shaping of indebtedness as a career, basing his analysis upon an extensive and detailed account of debt enforcement agencies and practices as they exist in England. Material contained in texts and manuals prepared for training credit personnel who perform enforcement functions, as well as my personal observations and participation in collection activities, provide assurance that the American debt enforcement process is not essentially different and that his general analytic framework is appropriately applied here. Our more limited description of credit sanctioning, creditor account control, and debt collection practices intends primarily to point up those aspects of the debt enforcement process which support the contention that it constitutes a labeling process--a system which generates and

enforces definitions. Our examination of these practices emphasizes the features of debt enforcement by which it can be characterized as a social control system. We are primarily interested in the way in which individual consumer debtors are ascribed deviant identifications through the categorizing, labeling, and sanctioning activities of debt enforcement.[21]

It might be well at this time to address and put to rest an issue which may be raised in connection with debt and the treatment of defaulters who are processed through the collection system, i.e., the question of the amount and type of debt incurred by the consumers under consideration--whether they are equally in debt or have equal repayment potential, and whether their debt originated in response to need or from frivolous or unnecessary expenditures. Another perspective would have found it necessary to take these questions into consideration, arguing that objective factors do enter into becoming and remaining deviant. It is our position, however, that deviance does not adhere in the act of becoming over-indebted or defaulting, but originates in the labeling of debtors as deviant by others, principally by the social control agents (creditors and collectors) who carry out the process of enforcement. In this study consideration of type and amount of debt is not seen as of operating importance, for debt agencies do not respond as would an economist. As we show in the remainder of this chapter, collectors develop and impose categories on debtors in the routine course of their work, to organize the sanctioning of large volumes of "collection accounts," and they take

little interest in the debtor's personal circumstances. It is their conception of his ability and willingness to pay, guided by stereotypical notions of debtor "types" and their experience with them, that direct the way in which the enforcement measures available to them are selected and imposed. Moreover, defining debtors' deviancy in terms of amount and type of debt depends upon official or class-based notions; I have avoided making such judgments throughout this study, for it is impossible to be objective in distinguishing needful indebtedness from that which is not. For this reason, and because the condonability of behavior seems to me irrelevant to the practical application of deviant designations, I have devoted considerable attention to showing how debt "trouble" emerges out of financial vulnerability. I have presented the troubled debtor as Anyman, who for lack of an adequate financial cushion as protection against unexpected events, and because of poor debt management or encouragement by credit granters, may be moved across the line to over-indebtedness by any one of a number of events (job loss, illness, over-spending). I have tried to make clear that over-indebtedness cannot be considered in absolute terms; people with high and with low incomes, with large and with small debt loads, can fall into arrears and any American consumer can find himself beset with a sudden change in his circumstances (affecting either his earnings or his indebtedness) that he is unprepared for. When such an event occurs, should it lead to his defaulting on debts, he will be set upon a course of treatment

that is marked by the defining of him as deviant, and that is the process to which we now turn our attention.

Enforcement by Credit Granters

Entry to the Indebtedness Career

Decision making by credit personnel is the essence of credit work and the most crucial of credit decisions is whether or not to grant credit to an applicant. Before making this decision most credit granters subject the applicant to a set of probes. "These probes are collectively known to creditors as 'credit sanctioning,' and they prepare the basis for any subsequent transactions with the debtor. Sanctioning determines whether a person will be allowed to adopt the status of debtor."[22] The work of credit sanctioners is directed to identifying and retaining the desirable candidate and detecting the debt defaulter. It requires credit granters to make judgments about consumer applicants that will predict their future behavior as debtors but since credit decisions must be made quickly and inexpensively their work is complicated by the need to make such judgments on the basis of incomplete information. "Credit sanctioning cannot be a rigorous search for the unimpeachable consumer. It must be a subtle exercise in the definition of what is just tolerable as a risk."[23]

The determination of what is tolerable as a credit risk for a given creditor is generally established by the firm's credit policy--its plan for the course of action to be taken over a period of time including the set pattern to be followed in collecting

past due accounts. Thus the credit policy involves consideration of both credit granting and collecting functions. A credit granter has the choice of four basic policies: liberal credit-strict collection, strict credit-liberal collection, liberal credit-liberal collection, or strict credit-strict collection. The first two are the most likely policies to be found in effect, especially among retailers and service establishments. Four main factors influence policy determinations: first, available capital. Many creditors must adopt a strict collection policy in order to meet the demands of their own creditors. They depend largely on the turnover of goods to provide needed funds but when goods are sold on credit the transaction is not complete until payment is received. In many cases the need to ensure prompt collection of accounts receivable implies the need to limit credit extension to consumers who are most likely to be prompt payers. For some credit granters (not granters of service credit or financial institutions), the type of goods to be financed is also a factor in establishing policy; sellers of perishable goods usually find a strict credit-collection policy necessary while sellers of hard goods which could be repossessed may be more lenient. Competition is a very important influence in forming the credit-collection policy. Creditors are becoming increasingly aware that they must consider the credit policies of competitors in formulating their own. Tight credit standards and a policy of swift collection may mean lost customers and reduced business and retailers and lenders are often

forced to establish more liberal policies than they would like in order to stay in business.

> The need for sales and the credit extension policies of competitors may force a credit grantor's acceptance standards down the risk scale. Retailers regard their credit cards as merchandising tools. The card exists to generate sales--smooth, quick transactions unhindered by stuffy approval policies or restrictive credit limits. The credit manager soon comes to understand that if a customer can get credit from a competitor across the mall, it had better be available from him as well.[24]

Finally, the credit-collection policy depends on the type of clientele a creditor has or wishes to attract. This factor hinges primarily on the concept of credit risk, hence the evaluation of applicants in terms of the risk level acceptable by the creditor's general credit policy comes to the fore. Whether a credit policy calls for strict or liberal credit, or where it sets the risk level, means that some border-line accounts or only prime risks will be accepted. Policy sets the creditor's acceptable level of risk, but identifying the risk an applicant represents is largely a matter of judgment aided by such information as can be obtained from the customer and from records of his history as a credit user.

In attempting to make determinations in advance about an individual's performance as a debtor, credit sanctioners share the problems of later-stage debt enforcers. They must reconcile the conflicting objectives of the collection process--achieving prompt debt payment without great expense or loss of good will--and they must try to detect causes of default in anticipation of its possible occurrence. To dispel uncertainty about the unknown consumer who confronts him, the credit sanctioner must have some knowledge

of the applicant and his situation in order to estimate the possibility that granting him credit will not prove to be a costly mistake, but probing for facts about personal and financial affairs is a delicate matter and he must be subtle in attempting to elicit such information. (Credit granters go to considerable expense to lure new accounts and they are careful not to affront them with tactless or intensive interrogation.) In making risk evaluations, credit sanctioners build models of types of candidates--the good risk, the marginal, and the "deadbeat," an unacceptable risk. The information they receive is used to infer the applicant's characteristics which are matched against these constructed types. They look mostly for evidence of stability; the main criteria for determining the individual's place on the risk scale are occupation, income, age and marital status, place and length of residence. At the top of the scale is the established business executive earning $20,000 or more, married, age 32 to 48, a homeowner for five years or more; at the bottom is the 21 year old, new on the job, living in a furnished apartment, and making about $6,000. Good risks are desired by all credit granters but to decline all marginal risks would deprive the firm of profitable credit volume. The border-line cases between good and bad risks are difficult to evaluate because they present the investigator with ambiguous evidence:

> Border-line credit risks, these are the hardest to handle and they offer a real test of credit judgment. Perhaps they have a record of slow payment on a couple of accounts but they also have some good ratings; several recent changes of address or employment might appear,

> causing uneasiness as to stability. Perhaps the applicant seems pretty well loaded up with debt already, but is due some consideration.[25]

Credit policies setting the tolerable limit low on the risk scale place difficult demands on the evaluator. He must identify marginal risks on the basis of sparse evidence and then sort within the marginals selecting out those whose situation is only somewhat uncertain rather than dangerous. The lower down the risk scale minimum acceptance standards are set, the more marginal risks become debtors--and greater becomes the volume and ambiguity of cases to be processed by the enforcement system.[26]

There are four main sources of information available to credit investigators: the credit application, the personal interview, outside sources suggested by the applicant's references, and reports purchased from the credit bureau. Basic information is supplied by the candidate in his application--name, address, age, occupation, family status, and names of friends, relatives, and other creditors. From these basic facts a gross image of the applicant emerges and unless the sanctioner harbors doubts about the applicant's truthfulness, this may be enough to consider the investigation complete. (Should he have guessed wrong, convenient leads are supplied by the credit application to help in locating the debtor and pressing for payment.) If the sanctioner is not confident in assuming the desired traits on the basis of application data, he may invest additional time and expense in a personal interview. A few more facts can be obtained in this way but primarily it is an opportunity for the credit sanctioner to develop an

impression of the applicant's character and sincerity. Considerable weight is placed on experience and "gut feelings" in making subjective determinations about applicants; by "getting to know him" the investigator feels he can estimate the candidate's ability and willingness to meet credit obligations promptly. Credit department personnel attending a training session on credit and collection procedures are told to get acquainted with the applicant:

> Find out all you can about him but be tactful in asking questions--make it look like conversation. Avoid talking about topics like politics, religion and personal problems. Better to stick to news--current events and sports. Men like to talk about sports. And give them compliments--they're good with women. Ask about his job so information can be extracted about how he makes his living. Talk about his kids, brag on the kids and ask about others. Give the kids something--people love it when you give them something for the kids. Don't be fooled by the applicant's appearance. Manner of dress is not a good indicator of ability to pay. And social position is not a good basis for granting credit--Mr. Social Status will tell you that a check is in the mail![27]

If the investigator has misgivings about the quality of his evidence, direct inquiries of outside sources may be made to verify the applicant's claims. References are not likely to be checked if the investigator is comfortable with the consistency of the data he already has, and verification is unimportant when he feels he already has sized up the candidate as a good or a bad risk. The veracity of a clearly good risk is not doubted and bad risks have usually mastered the art of debtsmanship and can outwit the investigator. The credit course lecturer cautions his students that references are important but "you can't put too much stock in them. The biggest deadbeat can always give one good reference, some can give two or three. It's more important to check out his

background--you should know about lawsuits, bankruptcy, divorce. . . ."[28] This kind of information can be obtained from the credit bureau. Part of the purchased credit report is based on the ledger experience of other creditors which shows how the individual has met his credit obligations in the past, but the report is also valuable as an outline of facts about him collected from other sources. Credit reports contain facts from employment records, landlords, collection services, the post office, city directories, other credit bureaus, newspapers, and public records. A gold mine of evidence is obtained from public records; it can confirm the stability of the applicant--marriage, home mortgage, property transactions, or it can be damning to him--lawsuits and judgments, petitions in bankruptcy, divorces, arrests, indictments, convictions.

The information gleaned from these four sources is factual. It constitutes raw data which credit sanctioners can collect and verify but it must be analyzed and interpreted. The credit-sanctioning process is crudely scientific; the criteria for determining an applicant's place on the risk scale correspond to the factors creditors believe are causally linked to default and it is these factors on which data are gathered to serve as the basis for sanctioners' judgments. Limited knowledge of the applicant on the crucial indicators of residential and occupational stability and a tolerable debt load is sufficient to ground assumptions about the traits and circumstances that identify types of debt risk.

Credit sanctioners concentrate on four factors that are commonly accepted as valid guides to the investigation process.

> When the question of what to investigate is raised it is easy to repeat the "four horsemen" of credit--character, capacity, capital, and conditions. These so-called four C's of credit have echoed down the ages and through the text-books, articles and speeches on credit with a remarkable persistency.[29]

Conditions, the current state of the local economy, influences the credit-collection policy and the way it is implemented by the credit department. Capacity, evidenced mainly by income, reflects the applicant's ability to pay. Character is a clue to an individual's willingness to pay.

> Character may be defined as an intangible sum of personal attributes and they are revealed indirectly rather than directly. What we frequently accept as character is reputation and reputation is really the opinion held by others about a person.
>
> The elements entering into character may be personal and thus concerned with family situation or habits and attitudes such as drinking, gambling; they may include virtues such as honesty and courage or the reverse. It may be inferred or revealed by business or professional conduct such as payment of obligations, tendency to make unwarranted claims . . . attitude toward obligations, speculative tendencies, respect for the rights of others.
>
> Character being an inward thing, in effect an intangible personal quality, can be correctly inferred only to the extent that it is revealed. In some respects a reputation for good character may be the result of never having been pressed by adversity.[30]

Because the investigation cannot produce certainty about an applicant's capacity or character, his future performance as a debtor can only be estimated; the creditor takes a gamble but he hedges his bet by seeking information about the candidate's capital resources, for this answers the question--Can he be made to pay?

When a successful applicant passes the stage of credit sanctioning he may make financial commitments to the creditor and adhere strictly to the terms of his agreements. He may take other

routes before he becomes of further interest to the credit department; a common course of action combines eventual repayment with minor departures from model debtor behavior. The machinery of debt enforcement is geared to the routine processing of these forays into debt delinquency and it is equipped as well to deal with those consumer debtors who must be made to pay.

Defining Debt as Delinquent

Approved credit accounts are supervised and monitored by credit department personnel under the same policy that directs credit sanctioning; these functions are defined and integrated by that policy. Typically, with strict credit granting less stringent control is called for--in fact, if sellers of goods and services accepted only top grade credit risks there would be no need for a credit department since they would be doing essentially a cash business. If credit is granted liberally, accounts are likely to be strictly managed. When the credit policy sets lower standards, more marginal cases are attracted which require close credit department surveillance and place greater decision-making demands upon credit personnel. Credit standards express degrees of repayment uncertainty. In implementing policy, credit sanctioners deem candidates acceptable or unacceptable on the basis of their estimates of the likelihood of repayment, knowing that their predictions of consumer debtor behavior will prove wrong in a number of cases. In effect, the sanctioning process generates a mass of approved credit capability which then flows into the machinery of

debt enforcement. The aggregate reflects the creditor's policy standards but the performance of the individual elements is uncertain. The daily operations of the credit department are attempts to impose order on this uncertainty.

Since credit granting organizations recognize debt collection as an inherent part of all credit operations, enforcement of debt by creditors extends across a connected series of related processes--credit sanctioning, controlling and servicing of active accounts, and the initial phases of debt collection. In the main, the creditor's enforcement function is performed through mechanical, impersonal routines. While the work of credit sanctioners and collectors is largely person-oriented and organized around the judgments developed out of enforcers' interaction with consumer debtors, the account control system--the backbone of credit management operations--centers on the <u>accounts</u> of consumer debtors. Account control is accomplished by an automatic system designed to carry out standard maintenance procedures and to sift and sort the indebtedness which is quantitatively represented in ledgers and account records. The system is focused on consumer debtors as persons only when aberrations in account behavior activate signals built into the system.

Credit department activity subsequent to approval of the consumer's application is governed by its procedures for monitoring and controlling his use of the credit privilege. These include procedures for authenticating the credit user's identity and authorizing his transactions with the creditor to ensure that the customer

is not an imposter and that his use of credit conforms to the limits established in the sanctioning process. Billing the credit user for services or purchases at the end of each month or cycle is also carried out as a standard credit control operation. The bill identifies the goods or services received and specifies the precise amount of the obligation and the exact date on which all or a certain portion of it must be discharged. (When identical amounts are to be paid according to a prearranged schedule, as with installment loan obligations, a coupon book or amortization table is understood to represent notice of expected payment.) The regular statement sent out to the consumer debtor telling him that the time to make payment has arrived is the formal declaration that transforms his state of indebtedness from financial commitment to that of debt obligation. Customer billing is the final step in the bulk of credit transactions; most obligations are paid within the time period agreed to by the consumer debtor and his creditor and thus most debtors will never appear as persons to be processed by the collection system.

Debt enforcement begins in the credit granter's account management system; the first phases of debt collection are accomplished as a part of creditors' routine procedures for monitoring and controlling accounts receivable. Although the creditor's collection system is integrated into the general account control operations, only those activities which occur after the established period has expired are regarded as collection efforts.[31] The creditor's collection process involves an automatic system

operated daily to perform a series of functions: (1) to pick out delinquent accounts, (2) to start immediate collection effort, (3) to take note of and suspend further collection action when payment is received, (4) to follow up on special arrangements made for clearing past due accounts, (5) to eliminate accounts which remain delinquent; it provides for a systematic procedure to write off accounts uncollectible by regular techniques.

Debt delinquency is mechanically and impersonally defined by the operations of this system. An obligation which is unpaid when the established credit period has expired is automatically set up to receive the initial collection treatment and it thus becomes a delinquent debt. A debt is defined as delinquent by the system which picks it out of the creditor's accounts receivable and places it among the accounts which are to be gently nudged with an impersonal collection device routinely dispatched by the enforcement mechanism.

The Creditor's Collection System

The collection process is a carefully contrived system of social control designed for the enforcement of indebtedness. The first and mildest of the sanctions available to it is the creditor's past-due reminder. When a consumer debtor receives this message he has entered a deliberately constructed enforcement career.

> Any enforcement career is built on three crucial foundations: the system of differentiation; the temporal structure of enforcement; and the nature of the sanctions which can be implemented. The regulation of default like other enforcement systems, rests ultimately on what an agency can do to the

> people it is supposed to control. A collection sequence is a progress into controlled unpleasantness. A creditor's relations with his weapons mould a career.[32]

Cole has outlined the general nature of the collection system showing its divisibility into four major stages and indicating the collection devices appropriate at each stage together with the classes of debtors at whom the devices of each stage are aimed. A representation of Cole's outline of a general collection system appears below; in it the three aspects which characterize an enforcement career are clearly evident. The nature of the sanctions: Cole's list of collection devices includes a set of form letters which represent attempts to goad debtors into providing explanations for nonpayment that can be used in guiding further action; it also includes a series of messages designed to arouse vague anxiety--messages which contain ambiguous threats of increasingly coercive actions which may be taken against the debtor. These are the forms of weaponry which characterize an enforcement career:

> First, tests are successively applied to ascertain what the most appropriate collection tone should be. . . . Ambiguous threats are a second feature. Enforcement would be discredited if it contained falsifiable predictions about action. Enforcement thus relies on an extensive and continual manipulation of threats.[33]

The system of differentiation: a differentiating process is built into the collection system. "The whole process conforms to a blueprint and is machine-like."[34] The initial discriminations take place when unpaid accounts are selected out to receive a reminder notice and are thereby identified as delinquent. In the first, "impersonal" stages of collection, differentiating among accounts

A General Collection System[35]

Stage of System	Collection Devices Available for Use	Debtors Involved
1st Impersonal routine	Statements--2nd, 3rd, etc. Reminder note on statement, separate Enclosures, inserts, stickers Form letters of reminder type	Honestly overlooked Temporarily financially embarrassed Careless or procrastinating debtor
2nd Impersonal appeals	Form letters appealing to: "Anything wrong?" tone "Tell us your story" tone Pride in credit responsibilities Seeking reply from debtor-- Special letters: Registered mail Special delivery Telephone; telegrams	Honestly overlooked Temporarily embarrassed Careless or procrastinating Overbought Accident or misfortune Disputed account
3rd Personalized appeals	Personal letters to debtor Personal collector: Telephone call (debtor; employer) Personal interview Notification to credit bureau of impaired credit standing)	Overbought Eventual insolvents Accident or misfortune Fraud (no intent to make payment)
4th Drastic or legal action	Extension agreement Composition arrangement Repossession Collection agency or attorney Suit Garnishment Other drastic measures	Same as debtors in previous state (all should have assets)

is a mechanical process--paying accounts drop out leaving delinquent accounts for further processing. As enforcement progresses, paying debtors continue to be eliminated from the system and repeated differentiation takes place among the defaulters, those debtors who remain in the enforcement career. Differentiation is largely a process of self-classification; by this we mean that by their responses to collection efforts, debtors tend to place themselves into the categories debt enforcers use to mete out appropriate sanctions. Collectors' interpretations of debtors' responses to appeals and threats of coercive action are the basis for distinguishing among defaulters and identifying them as unfortunate, irresponsible, or fraudulent. The <u>temporal structure</u>: the timetable of enforcers' organized response to debt delinquency originates in the mechanical operations of the creditor's account control system.

> Like most commercial activity, collection is spaced out at standard intervals of time. Actions are taken every week, month or year. Creditors use these intervals as the skeleton of the career; enforcement is likely to last for a year or more, its stages being separated into monthly periods.[36]

Although the collection sequence which marks the growing delinquency of debt is directed by the conventional calendar, change in the indebtedness condition is not strictly a function of absolute time. The initial enforcement event and the tempo of progressive redefinitions of debt as more delinquent create a mechanical, impersonal career timetable which reflects primarily creditors' other concerns about money and the management of capital.

> To a creditor, a sum of money owed is a receivable and a receivable is a tangible asset, something he can reckon into his profit and loss statement, use as collateral for a loan, sell to a factor at discount--or he can merely wait until he receives it.
>
> One thing all creditors always do with receivables is age them--that is, they compute the length of time that each receivable is outstanding and then use these computations as the basis for their collection and accounting procedures. Exactly what a creditor does about a receivable of a specified age depends mostly on the nature of his business. As a rule, collection is more leisurely in businesses with high markups, large cash flows and relatively small amounts of capital tied up in inventory. Those with low markups, small cash flows, slow turnover and a large proportion of assets tied up in inventory have a harder time doing without the money so they start working to collect it sooner and move the process along more gingerly.[37]

The temporal basis of a career system is also revealed in the idea of process which underlies the division of collections into stages.[38] Collection system stages emerge from the practical considerations of creditors. The longer a receivable remains unreceived the more it costs to collect, the less likelihood there is of collecting it, and consequently the less it actually is worth. Department of Commerce estimates show how rapidly accounts depreciate in value: after it is three months late, one dollar of indebtedness if worth 90¢; its worth shrinks to 50¢ after six months, to less than a third in a year, and when it is five years overdue, each dollar in accounts is devalued to only one cent. The more overdue, the less the debt is worth collecting; there thus comes a point, usually after about six months of delinquency, when a debt is charged off the books because it costs more to collect than to write off. The organization of the collection system enabling its division into stages is dictated by expediency; the

devices available at each stage have a somewhat different emphasis and are aimed at different sets of debtors. The appropriateness of the sanctions imposed at each stage is evaluated in terms of enforcers' notions of what are plausible reasons for nonpayment. Throughout the collection process the main goal is to induce payment of money owed, but each series of devices it uses gives a different weight to its ancillary objectives--economy and preservation of good public relations.

Initial efforts take an inexpensive shot-gun approach but they give all debtors the benefit of the doubt; a second barrage, delivered upon debtors who fail to respond, places less emphasis on being inoffensive since its fire is somewhat more directed. Eventually it becomes inexpedient to persist in attempting to collect small sums and concern for good will is discarded in bids to recover larger amounts of money. The later-stage devices are appropriate for particular types of debtors, those to whom unacceptable reasons for default are imputed. Thus series of devices designed to be effective with different sets of debtors generate stages conveniently subdividing the collection process and marking shifts in the way collection objectives are balanced off by creditors. This general view of the collection system and the claim that it is structured around the practical concerns of credit granters find support in the following excerpt from Cole's credit management text:

> A well-designed collection system may be compared to a series of screens over which the accounts are passed for the purpose of classification. The earlier screens are low in

> cost and handle the customer gently to preserve goodwill. The later screens are less routine, cost more to apply, may be sharper in action and thus not preserve goodwill with such certainty, and tend to classify the reluctant debtors into smaller and more exact assortments.
>
> The division of a general collection system into four stages gives emphasis to the kind of devices appropriate at each stage and self-classification on the part of debtors is accomplished at each of the respective stages.[39]

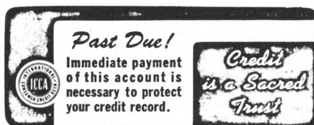
We have shown that a typical collection system such as that outlined by Cole (above) incorporates the identifying elements of an enforcement career. Later, in the next chapter, the enforcement activities structuring this career will be reviewed in terms of labeling theory. There we will consider the enforcement career as a social control system, one which functions as definer as well as enforcer of debt default as deviance. Two essential aspects of a social control system are its methods for identifying as deviant persons who fail to measure up to social expectations and the sanctions it uses to enforce socially acceptable behavior. We will now examine the enforcement sanctions used in the collection system and the way in which it differentiates among debtors who are to be controlled by the various devices it has available.

Creditors' Collection Devices

The methods used in the first stage of collection are inexpensive, impersonal, and designed to avoid giving offense. They simply notify the bill payer in a gentle way that his payment is past due without suggesting that the creditor is seriously concerned over nonpayment. Debtors are given the benefit of the doubt--the creditor assumes that the obligation has been honestly

overlooked or that the debtor is procrastinating or temporarily low on funds. All he needs is a gentle nudge and he will come through. A balance due statement showing the amount of the regular bill sent previously, perhaps with "Please" or "Past Due" written on it, may be the first gentle reminder. Larger credit operations often have a reminder message printed on the statement or on a separate notice as a step in computerized billing. For professional services and smaller businesses statement inserts and stickers are popular as a nudging device.[40]

C-36, Blue on Yellow



C-2, Black on White

Figure 4.--Examples of impersonal routine stage reminders.

Whatever the medium, the message is always polite, often apologetic, and tries to give the past due account an opportunity to pay up without loss of face. Reminders carrying a very general message can be disseminated among early delinquent accounts in the knowledge that those debtors with more desire and means to pay will respond, leaving a residue of slow payers for whom more specialized appeals are appropriate. Creditors depend upon the operation of this self-selection process as they deal with past due accounts in the early collection phases:

> After the bulk of the accounts has been reduced by the various inexpensive methods which also preserve goodwill, higher cost methods are applied selectively to the remaining small number of accounts which need such appeals. Harsher devices can be employed in later efforts since the self-classification process will already have eliminated those accounts whose goodwill is of primary importance.[41]

How soon after the expiration of the credit period the collection process is initiated with the sending of a reminder depends on company policy and the type of credit involved, but most creditors make the first move about one month after the billing. About 50% of accounts are usually paid before they become delinquent--within 30 days after the regular statement is received. Typically, the sticker is affixed at the beginning of the second month and this nudge is usually sufficient. The low cost "impersonal routine" methods are effective in disposing of the mass of delinquent accounts; some 30% of delinquent debtors pay up in the first stage and many others who are just straggling are caught up in the next.

Second stage collection devices are still impersonal but less routine. The messages take on more of the character of an appeal and the appeals are addressed to the debtor's better nature. As before, the creditor tries to believe that payment has been delayed through oversight, procrastination, or temporary financial embarrassment but now, since the nudge produced no results, he allows for the possibility that the debtor has overbought, met with illness, accident or other misfortune, or disputes the bill. Creditors know that some of the debtors who reach this stage have more sinister reasons, that some aim to avoid paying altogether, but in the interest of preserving good will, collection efforts proceed on a set of assumptions that gives debtors benefit of the doubt. The devices of this stage are not yet personalized or directed squarely at the debtor involved but they are often successful in evoking a response from the more conscientious; people unaccustomed to receiving notices take them personally and seriously.

The most common appeal medium is the form letter, usually suggesting that the creditor is certain that there must be a reason for the missed payment and inviting the debtor to come forward with his story. The text of a typical impersonal appeals stage letter expresses the "Anything wrong?" tone in this way:

> For some reason your account with Needham Apparel is in arrears. We would appreciate your letting us know what the problem is. We are confident that a mutually satisfactory arrangement can be worked out between us. Please get in touch and let's talk it over.

The letter may be sent by special delivery or registered mail to achieve greater impact and to secure some indication of receipt on

the part of the debtor. A change of address could explain the debtor's nonresponse to the first reminder but there is always the possibility that he may be deliberately evading payment and it is important to find out early whether he is not receiving the notices or merely ignoring them. The phone call is an effective way of dealing with debtors who have not responded but give every indication of living at the address they use, but it is too time-consuming and expensive a method for most creditors to apply to the volume of delinquent accounts in early stages. The Mailgram, an electronically transmitted message delivered by mail carrier, is a new medium useful for reply seeking. Some large credit granters such as Kresge's, for example, endorse it as a collection tool more effective than letters because its distinctive appearance compels attention and its terse telegram-style wording conveys a sense of urgency. A typical attention-getting Mailgram message might read:

> IMPORTANT THAT YOU CALL COLLECT IMMEDIATELY (phone number) BETWEEN 8AM AND 4PM CST CONCERNING YOUR CREDIT CARD ACCOUNT. PLEASE TELL THE OPERATOR THAT YOU RECEIVED THIS MESSAGE.

(The Western Union Company promotions of Mailgrams for use by collection departments refer to them as "the new art of friendly persuasion.")

However the creditor prefers to communicate it, the impersonal appeals stage message generally contains an appeal to the debtor's sense of fair play, to his pride, or to his self-interest. Appeal to fairness touches on debtors' honesty, suggesting that the trust shown by the creditor when the transaction was entered

into should not be betrayed. Appeal to pride stresses the idea that the debtor is a good person and good people pay promptly. The message may use implied compliments to make the debtor want to live up to the creditor's good opinion of him: "Please drop your check in the mail at once. Your cooperation in this way will be appreciated and it will maintain your excellent credit standing with us." Another version hints that failure to pay may damage the debtor's opinion of himself:

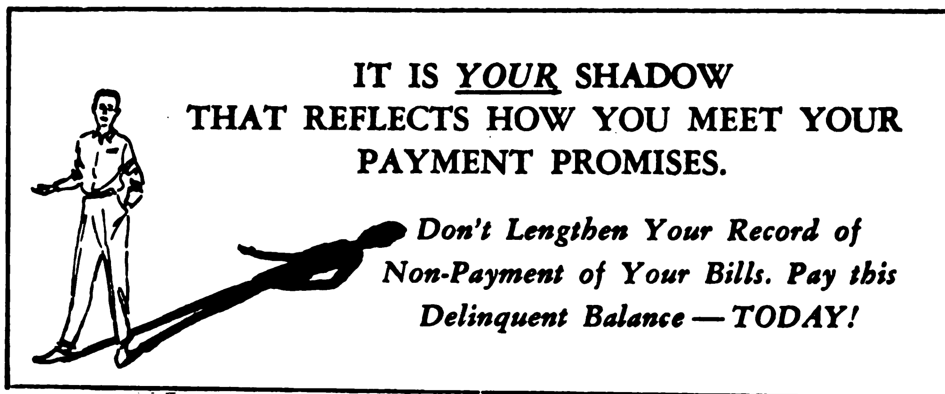


Figure 5.--Example of impersonal appeals stage reminder.

The appeal to self-interest is widely used and very effective. It emphasizes the necessity for payment to safeguard one's credit eligibility and to protect the availability of needed services in the future. This appeal is especially useful to health care suppliers since it artfully implies that essential medical service may be withheld from the delinquent debtor: "DOCTORS (hospitals, druggists, dentists) expect the same promptness in the

payment of their accounts as you expect from them in emergencies." The value of the credit privilege and the notion that delinquent obligations impair a good credit reputation is a theme which is repeated often and in various modes to the very end of the collection process. "Guard Your Credit as a Sacred Trust," the ICCA slogan, appears on much of the literature and collection devices it supplies and on the emblem displayed in the 60,000 credit offices of its member firms. An enclosure with an educational message about credit and the importance of a good credit record is a typical early stage device that conveys this theme. One such enclosure is a pamphlet entitled, "The Good Things of Life--on Credit." Its opening line: "Credit is the magic force which enables you to purchase immediately and thus enjoy more of the good things of life sooner. . . ." In the closing comments which deal with maintaining good credit the debtor is assured that "Credit executives understand that with almost everyone life takes adverse turns occasionally and even the best of intentions sometimes cannot be fulfilled. Under such circumstances it is wise to visit your credit executive and talk matters over--he can be of real assistance."

Credit granters know that marginal risks have been allowed to use the "magic force" and many of them are well-intentioned and will not represent a debt loss if given a bit more time and attention. Thus most granters of retail credit (not disreputable merchants who specialize in exploitative credit practices)[42] are anxious for the "unfortunates" to make themselves known; they are usually more than willing to make liberal payment arrangements for

well-meaning debtors in hardship because they are heavily dependent upon outside agencies to handle tough cases and they know that the agency may very well end up making such an arrangement and keeping at least a third of the collection besides. Large service credit granters, too, are usually glad to set up special terms for those who call in and ask, but a limited amount of time and effort can be spent in seeking them out. The willing-to-arrange creditor is also aware, however, that their invitation may be accepted by experts in the art of "debtsmanship" more readily than by the genuine unfortunate who may be too frightened and intimidated to do anything. Seasoned debtors have a variety of strategies for putting off their creditors and a favorite one is masquerading as a temporarily strapped debtor with a sad story and a convincing promise. He may comply with his special terms, but they nonetheless buy him some time and in effect he is obtaining free credit. A show of force must be maintained throughout the debt enforcement process so that consumer debtors will take credit privileges seriously but the screening process, especially the early sifting performed by creditors, is designed to find appropriate candidates for clemency. Although some unworthy ones may be included in the second stage catch with reply-seeking devices, failure to fulfill promises will lead to their quick discovery and to immediate severe sanctions.

Another version of the appeal to self-interest puts the creditor's suggestion that prompt payment protects the credit record as a thinly veiled threat that the credit bureau will be informed of the delinquency:

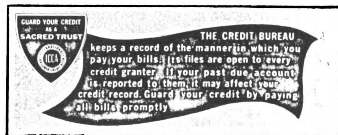


Figure 6.--Example of collection device implying threat against credit record.

Although creditors may inform the credit bureau it is unlikely that they will. The ICCA collections manual recommends that past-due accounts be reported on a routine basis, suggesting that the bureau be informed after the third notice on a monthly account or when two successive instalment account payments are missed. Such voluntary reporting costs too much in money and man-hours for most creditors to bother with and should the debtor have a valid reason for not paying, or if the accounting department committed a billing error, they risk losing a customer or even a libel suit by turning in a bad report. Most often information is given out only when specifically asked for by another creditor who has been given the firm's name as a reference. Thus the widely used and effective threat of revealing delinquency to the business community through the credit bureau remains merely a threat.

The devices of the second stage are generally successful in eliminating slow-pay accounts, the stragglers; the remaining

accounts are assumed to be those of hard-core resisters and are treated accordingly. The creditor has used gentle nudges and friendly urgency to which a faceless mass of forgetful, careless, and temporarily short-funded debtors have responded. Now he is dealing with persons whose credit limit proved higher than their capacity to pay, those whose debt ratio is approaching insolvency and perhaps will lead to bankruptcy, those who have met with misfortune and may go either way before the situation is resolved, some who still have a pending dispute and a few who are habitual deadbeats and never did intend to pay. By the third stage the devices can no longer be generalized, ambiguous messages sent out to past-due accounts that many debtors can be counted on to apply to themselves and respond to. All efforts now are directed toward the debtor on a highly personalized basis. Personal contact, sometimes by dictated letters but usually by phone, is a costly procedure but use of expensive devices with the debtors remaining at this stage is justified on two counts. First, although the approach is tougher now, the preserve good will policy is not abandoned so greater selectivity is called for in applying these harsher methods; creditors still want to avoid antagonizing debtors and their friends and neighbors who represent future business. At the same time, however, the preservation of good relations impedes the immediate hard actions needed with purposeful evaders and defaulters who are on the verge of insolvency. Personal interaction is required to accomplish the differentiation which is now essential. With persistent pushing and prodding, most debtors can be made to respond

in some way; their reactions are the raw materials that collectors use in building typical debtor classifications and assigning specific debtors to appropriate categories. Their interpretations of the debtor's responses, or his failure to respond at all, together with whatever information they have about him form the basis of the decision as to what action will be taken next and how soon.

> Enforcement can be visualized as a series of actions and reactions; it is a progressive interaction which mechanically builds up a composite portrait of the defaulter. It is only through this interaction that the defaulter emerges as a knowable figure.
>
> Typifications of debtors are constructed out of the knowledge which is generated by collection tasks. Enforcement work can be described as a system of coercive probes which elicit information-bearing responses. The organization of those probes determines the resultant image of the defaulter.[43]

Where earlier collection phases were represented as the nudge and the appeal, the third stage may be characterized as the push. The main feature of its devices is the threat and they become progressively more dire and more specific. Since collectors do not threaten actions that could not possibly be carried out, the first communication of this stage usually conveys only a nebulous threat of "drastic action."

> It is most urgent that you contact us WITHIN FIVE DAYS so that it will not be necessary to take more drastic action to secure payment of this long overdue account.

This is the beginning of the dunning process. From now on letters and calls go out to the defaulter in quick succession. The actions promised if payment is not forthcoming in X-number of days become somewhat more specific--the credit bureau will be informed, the employer called, the charge account closed, the goods taken back,

the credit card cancelled. The pace of message sending picks up and is made to appear relentless, for the constant pommelling often has greater impact than does the message content. Finally comes the threat that legal action will be taken or that the account will be referred to a lawyer or collection agency, but the flow of threatening communications is seldom replaced by abrupt action. Before legal steps are actually taken (if indeed they are taken), there is likely to be a period of more intensive dunning with "last opportunities" offered and the same sort of threats repeated several more times.

The telephone is the essential medium for the personalized contact approach of stage three. Written communications cannot equal the phone for immediacy or as an instrument of harassment. More important, personal calls produce information. The caller's interpretation of any outcome of an attempt to talk to the delinquent debtor by phone generates useful knowledge that helps identify him as one of the collection system's three working types. No answer on repeated tries or an unlisted or recently disconnected phone are clues to the evader. On this evidence the creditor can assume the debtor is a skip or a deadbeat; he dispenses with further amenities and moves at once to tracking him down and imposing full-scale coercion. A personal call can also ferret out the genuine unfortunates who may have been too frightened by threatening communications to come forward and explain their story. This may be the original creditor's last opportunity to show them how lenient they can be with past-due accounts. The devices of the next stage are

no longer tempered by consideration for good will and most creditors prefer to dissociate themselves from that stage of collection. If they wish the matter pursued further it is often left to a lawyer or outside agency to be carried out. The screen achieved by the personal call is thus of special importance, for it can both accelerate the processing of discovered deadbeats and offer rescue to some salvageable debtors before they become identified and treated as defaulters. Above all, the phone call is usually successful in forcing the debtor to make some response and his response serves as a test of the creditor's hypotheses about the debtor's situation. Rock has observed that

> Each stage of a career encapsulates one or more tests of hypotheses about a debtor's situation. The results of the tests suggest actions in succeeding stages.
>
> The results take the form of a reasonable or an unreasonable response from the harassed debtor. A reasonable response leads to a temporary abatement of enforcement whilst a debtor's behaviour is carefully monitored. The unreasonable response, which is most often no response at all, automatically suggests the need to pass the debtor on to a more severe stage.[44]

We find a similar idea expressed in the idiom of the ICCA collections manual:

> One tremendous value of telephoning is that the debtor is almost obligated to say something, even if only to offer a vague assurance that the matter will be looked into. Once in a while a debtor will hang up abruptly after getting an inkling as to the nature of the call. This seldom happens but even when it does, there is still some advantage to the creditor because no clearer revelation could be made of the debtor's attitude toward the matter. Obviously the alert person, as a result of this lack of cooperation, will intensify collection efforts. Debtors can easily ignore letters and perhaps assert that they were never received. The telephone, however, offers no such easy way out.[45]

The calling creditor does not initiate the interaction with an objective view of the debtor or of delinquent debtors in general. He has formed a tentative image of the debtor and his situation based upon information obtained in the credit sanctioning process, from the debtor's payment history and his record of collection attempts, and this image generally fits a broad typification of one or another "kind" of debtor. The content of the debtor's response is evaluated in terms of typical responses expected from various debtor types. The creditor has already monitored the debtor and his account for some time and by the third collection stage he is in effect making a decision to advance or delay the debtor's progression through the enforcement career. The bias is toward advancement unless the creditor can be convinced of the debtor's sincerity since the operation of the system should have weeded out most genuine unfortunates by this time. The validity of debtors' explanations for delinquency is impaired by their belatedness and by the fact that they were not offered voluntarily. In other words, explanations offered now are received as standard excuses. The ICCA lecturer instructs his class on the use of phone calls for collection in this manner:

> The phone call is a good way to get promises--then you have a commitment to follow up on and legal steps can be taken if they're not fulfilled. Be sure you're talking to the debtor himself and then identify yourself--that may end the conversation and that's fine! Otherwise say something like "We haven't heard from you about payment. . . ." And now comes the standard excuses: number one, sickness--he plays on your sympathy. Number two, a complaint--he's mad about something, the service, the merchandise. Number three, overloaded--he owes others, he's having a hard time, and number four, unemployed. Number five, domestic trouble--separated, it's not

> his bill, or you're collecting from both of them. Number six, he forgot, the check is ready to mail. Not so! Tell him you'll come by for it and he'll back down. Whatever they say, try to get a definite commitment. Pin him down--When is payday? Then tell him to write it down himself, the amount and the date he'll pay.[46]

If the debtor can overcome the creditor's skepticism and make him believe that he wants to pay and that he really has some kind of hardship, most creditors are willing to cooperate, even as late as the fourth stage of the process. As evidence of this we find that extension and composition agreements are shown as types of drastic actions available for use in the final stage (see Cole's outline of the collection system, above). Cole, of course, is writing for credit management students and it is from this, the view of creditors, that these devices are "drastic." They are forms of out of court settlements that creditors may enter into with debtors they believe to be honest, sincere, and without intent to defraud. Under the composition arrangement, a group of creditors agree to accept a percentage of the amount of the debt as payment in full. The extension agreement is a moratorium whereby the debtor is granted up to three more years to pay off the debt. The willingness of some kinds of credit granters to make such concessions has its basis in practical considerations similar to those which guided their credit activities at earlier stages. As a last resort a compromise with the debtor is preferred to the alternative of carrying out the threatened legal action which is costly, time consuming, and detrimental to good public relations. Creditors' willingness to back down also reveals the fact that debtors

frequently have the power to bargain; one effective means of counter offense is the threat of declaring bankruptcy.

> The creditor knows that by going into bankruptcy the debtor can wipe out the entire debt. The creditor knows, too, that if he goes to court he has to spend money for an attorney and court costs, as well as additional time in court away from his business. Moreover, it may be bad publicity, especially for a certain type of bank or finance company, to repeatedly go to court. In addition, even if he does obtain a judgment against the debtor, he may have difficulty in collecting on it.[47]

The actual or potential threat of voluntary bankruptcy becomes an important factor in the psychological battle waged between the defaulters and collectors involved in the stage of drastic collection devices; we will touch on this again at the end of this chapter.

The devices we have so far described are those employed by the original creditor to secure payment of delinquent obligations; generally, creditors' active involvement in the collection process ends with the third or personalized appeals stage. Most often, particularly among retail firms and service credit granters, if the creditor has "worked the account" through the third stage without success (usually over a period of six months or more), the system calls for it to be written off. Writing off an account is a bookkeeping procedure which removes it from accounts receivable and shows it as a loss, but writing off does not necessarily mean giving up. Unless the debt is too small or too difficult to merit any further effort, most creditors try to recoup the loss by referring it to an agent for the next phase of treatment.

When the fourth, "legal or drastic action" stage begins, the whole collection system shifts to a new mode of operation: for

debtors still remaining in it the policy of preserving good will is now totally abandoned--the pushing and threatening efforts are intensified, dunning is stepped up and, ultimately, legal devices are put to use. Typically the creditor has bowed out at this point and turned the proceedings over to an attorney or outside agency which specializes in dealing very firmly with defaulters on a mass scale. As Cole notes, the debtors involved in the final stage are the same as in the previous one except that consideration is now given to the ownership of assets. Although the collection strategies of the fourth stage utilize more powerful weaponry and are not hampered by regard for good will, an additional information-seeking burden is placed upon the agency collector who commonly handles the affair at this point. Before legal means can be employed to obtain payment, the collector must know about the defaulter's employment and indebtedness condition, for legal steps are useless against a debtor without a job or assets. In the event that legal steps cannot be used, other "drastic" action may be taken by the agency collector. Later we will describe some collection agency procedures and show how the agency collector carries on the final stage collection process as a continuation of the creditor's efforts.

The foregoing description of creditors' collection devices (through the use of "personalized appeals") reveals the basic strategies all creditors use to enforce payment of delinquent debts. In the general case, after the devices of the first three stages of the collection system have been applied by the original creditor the final, severe stage, including use of legal sanctions, is

carried out by an agency and we will describe that part of the collection process shortly. There are, of course, variations among individual creditors and among granters of different kinds of credit. Some firms forego the drastic action stage altogether because of the ill feelings that could be created; some carry out these measures themselves. To illustrate alternative strategies that certain types of creditors may use, we next explain briefly how the enforcement of delinquent accounts is handled by a few key credit granters whose strategies depart somewhat from the general pattern.

Some Variations on the Basic Collection System

Of the several creditors any consumer debtor is likely to have, the most formidable debt enforcers are those who can quickly cut off needed services such as gas, electricity, and telephone; these are also the obligations that add urgency to the problems of overburdened debtors. The collection methods of utility companies are particularly swift and inflexible. Because of the massiveness of their billing operations their procedures are highly standardized; while other creditors may make allowances for good customers or generally prompt payers, all overdue utility accounts get the same notices and all progress inexorably to suspension of service if payment is not made. The process is fully automated and involves almost no personal contact with debtors. The statement which is sent following an unpaid bill carries a computer-generated friendly nudge but the appeals stage is omitted and about ten days after

the second bill goes unpaid the debtor receives notification threatening shutoff of service. Most companies send a second, more urgent warning and allow a few more days, but then the service is terminated. Since utility shutoff requires a premise visit by a field man, he makes a final on-the-spot effort to collect but this is the only personal attention a delinquent account receives. Utilities would prefer not to cut off service because of the trouble and expense it involves so they may make special arrangements with past-due customers who call in promptly with a convincing story of hardship, but they make no appeals to encourage them. Once the threat (service cut-off) has been carried out, the usual demanding letters and dunning calls follow. The final step is likely to be referral to an agency and authorization for them to bring suit when large disconnected service debts are involved.

Telephone companies also use strategies centered on the threat of service termination but their sanctions are applied with less uniformity and at a slower pace. They rate their subscribers by their paying habits and are much more lenient with well-rated customers who are having temporary difficulties. A reminder is sent on accounts two to three weeks past due; in the next month a five-day warning goes out, followed by a call asking what the problem is and urging payment. When no payment or explanation and promise results, a temporary one-way cutoff occurs and the debtor is given two weeks to pay up and have it restored or suffer permanent removal. As with utilities, a cut-off service debt is much harder to collect after the best weapon has been used. A few

notices and calls are made; if the debtor applies for a phone at a later time or in another place, the delinquent final bill is presented before service is installed. The last step with defaulting ex-subscribers is referral to the collection agency where payment may be enforced by court action.

Banks and finance companies are also likely to be found on almost any troubled debtor's list of creditors. The efforts of financial institutions to collect past-due car payments, loan instalments, and credit card accounts may differ in one or more stages from the standard procedures of the general collection system. With the exception of auto loans, which are enforced by tough repossession practices, the collection of loans and credit card obligations begin to differ only in the last stage, after routine dunning measures are exhausted and drastic forms of action are called for. With car loan collection, the pre-drastic stages are accelerated and the final stage is quick and severe. Purchases of automobiles on credit are typically governed by a conditional sales contract which gives the buyer the right of use of the goods but transfer of title is conditional upon full payment of the obligation. The buyer does not own the property until he has made the final payment; the seller--or the institution which buys the contract--can repossess its own property in the event of a default in payment by the buyer. Under present laws, a car can be repossessed without notice or a court order; it can simply be picked up where ever it may be found, the single exception being that it cannot be removed from a locked garage. With this strong sanction available,

the creditor all but bypasses the preliminary stages. Telephone dunning begins soon after one payment is missed; if two go unpaid, a creditor bank will send a field collector to see what the problem is. If the debtor has a good paying record and can argue a temporary problem such as job layoff is at fault, the loan may be rewritten on easier terms but auto financers are rarely lenient with delinquent debtors. Since auto loans are secured by easily recovered property they are very liberally granted; the large number of high-risk borrowers accepted makes the auto loan collection system follow an inflexible and tough enforcement policy which never permits the doubt to benefit the debtor. The field man's interview is the debtor's last chance. If his visit does not produce a payment the account goes to an independent adjustor, commonly called a "repo company." (Many finance companies do not have field collectors and move directly from phone calls to property seizure.) The debtor is not advised when referral to the repo company occurs nor is he informed about when the car will be seized. This step of drastic action arrives swiftly and is often so unexpected that the delinquent auto loan debtor believes that his missing car has been stolen. The main difficulty is locating the vehicle but once it is found the professional repo man whisks it away with the stealth of an auto thief. Their procedures are, in fact, virtually indistinguishable: he uses the same tools to open the car and start the motor, he prefers to work at night and usually has an accomplice; anything short of breaking and entering the owners' premises is permitted. When repossession is used as a device for collecting

auto loans, drastic sanctioning does not end with seizure of the vehicle. After the creditor has exercised his right to reclaim the peoperty, he is permitted by the contract to sell the car, subtract the value realized from the balance of the debt, and hold the buyer liable for any deficiency. (Repossessed merchandise is rarely sold for an amount that covers the balance of the debt so a deficiency almost always remains.) The creditor may then file suit to obtain a deficiency judgment against the debtor paving the way for further actions, such as wage garnishment, to satisfy the obligation.[48]

Repossession as a collection device is much less commonly used when merchandise other than automobiles is involved. Most goods bought on time (furniture, TV, and the like) quickly loses so much value that little is gained by seizing it. In addition, even if the buyer defaults on an instalment contract that provides for repossession, it is difficult and even dangerous for a collector to attempt to remove objects from the home unless he has first obtained a court order (replevin) or the debtor's consent (voluntary repossession). Apart from auto loans, efforts by lending institutions to collect on other secured loans in the three pre-drastic stages follow the general pattern--friendly reminders followed by personalized appeals and then dunning by phone. Threats of severe measures such as seizure of collateral, enforcement against cosigners, and seizure of wages or assets through legal suit may be made, but lenders are generally reluctant to carry out such actions unless the debtor appears to be totally uncooperative or dishonest. The widespread belief that lenders will take the

property borrowers pledge as security for loans acts as a strong deterrent against default but banks and finance companies prefer to avoid seizing it if at all possible. Because of the nuisance and the legal complications involved in seizure and selling of goods, they are more anxious to explore every reasonable arrangement that would enable a well-meaning debtor to meet his obligation. In the case of cosigner loans (which are frequently made to high-risk borrowers), if the creditor's efforts fail to produce either payment or an acceptable arrangement, the cosigner will usually be contacted and receive some dunning treatment in the hope that he may persuade the debtor to make payment; as a last resort, the cosigner can be made responsible for paying off the loan.

The collection of delinquent unsecured loans (those which involve no property or cosigner as guarantee against default) is almost certain to have referral to an attorney as the final stage weapon. Bankers and finance companies grant such loans on the basis of borrowers' credit-worthiness as determined in the credit-sanctioning process and since it is the debtor's income and assets which indirectly guarantee the loan, the collector's ultimate step in the event of default is to obtain these assets through legal action. Legal action is expensive and harmful to the lender's public image so it is taken only after all other efforts have been unsuccessful. Referral to a staff or outside lawyer can move slowly but if the borrower fails to inspire sufficient trust to justify a helpful delay, the account may be in the lawyer's hands after about three months of missed payments. The lawyer usually

sends out one last form letter threatening to sue within ten days; its purpose is mainly to frighten and it is effective in persuading many debtors to pay. Those who do not, find the threat carried out; if the lawyer has reason to think that other creditors are about to move in on the debtor's assets, there will be a very prompt move to the courts.

Collection of delinquent credit card accounts, bank cards in particular, closely resembles that of unsecured bank loans. The main difference between the two procedures derives from the cancellation clause to be found in credit card agreements: This card remains the property of (issuer bank), may be revoked and canceled at any time, and shall be immediately surrendered to issuer upon demand. (These words appear on the back of the Bank America cards.) This threat of cancellation is one of the credit card collector's major weapons. The usual preliminary steps come first (normally a computerized series of reminders, form letters, and nominal amounts in late charges added to the account) continuing for about two billing periods. Then telephone collectors take over and their first objective is to discover the reason for the delinquency. Based on the information they obtain, together with records of the card holder's past performance, the collector makes a judgment of the risk entailed in allowing the debtor to continue holding the card. Card issuers prefer not to cancel if it can be avoided; it means losing business but more important, collection leverage is lost with cancellation. Once the card privilege is revoked the collector has spent the threat most useful in getting the debtor

to pay up, but loss of leverage has to be weighed against the risk that the card privilege will be abused by the delinquent debtor. Issuers treat delinquent card accounts differentially depending upon the payment record, size of the overdue balance, and the debtor's behavior. A delinquent card holder with an established account who volunteers an explanation may be carried for several months; quickest to be cancelled are high balance overdue accounts that cannot be contacted. The type of card is also an important factor: since T&E cards require full payment each month but set no credit limit (while bank cards are based on revolving instalment terms and set a ceiling on charges), they threaten cancellation earlier and carry it out sooner. When the time comes to carry out the threat of cancellation (usually some 90 days after the account becomes delinquent) collectors call card holders asking them to cut up the card and mail it back. Retrieval is not always accomplished so easily, however, so when this action becomes necessary, most card issuers delegate the task to an outside agency. Several large companies specializing in credit card retrieval have developed in recent years; the majority of their business comes from oil companies and banks, although pick-up orders from retailers and T&E card companies are increasing. The retrieval agency contacts the debtor by mail and phone requesting the card's return, and these initial approaches produce return of some 60% of cancelled cards. The president of one such agency describes its dealing with debtors who are less impressed with its early overtures:

> There is another approach we use with the "chronic staller" and a "belligerent" who tells you to "stick it in your ear" or worse. For such a person, a field agent, usually a moonlighting bailiff, policeman, detective or consumer credit employee, is dispatched to the home. In these instances the most common occurrence is for the consumer, who is just "embarrassed," to respond, "Durn, I just mailed it in yesterday." Then after the field agent leaves he rushes out and mails the card back. These procedures round up another 20% of the cards.[49]

As might be expected, collection of the balance due on a cancelled account is much more difficult. A few more dunning measures are taken and then the account goes to an attorney who makes a final demand and then proceeds to suit. This is generally the outcome for only the most recalcitrant of debtors, for credit card issuers prefer to use first any alternative it has available. Banks may seize any assets it holds in the debtor's accounts by their "right of offset" which is provided for in bank card agreements; T&E companies may make arrangements such as converting the card debt to a "note program" which can be paid off in instalments like a loan. Because creditors will be lenient and cooperative in certain cases is not to say that their collection procedures are necessarily lax or painless to the debtor. It is simply that it is often to the creditor's advantage to take whatever positive steps are feasible and will, on balance, be the most productive for the creditor under the circumstances. As a case in point, credit card collections were much more swiftly and severely carried out during the recession period of 1975, when account delinquencies increased and collections were harder to make.

One other key creditor whose treatment of past-due accounts differs somewhat from the general collection system we have

described is the medical service credit granter. The approach taken by medical practitioners and hospitals resembles that outlined by Cole with two major qualifications: first, as creditors, doctors, and hospitals are not as systematic about the conduct of the first three stages in terms of its timing and thoroughness; secondly, unlike creditors who can exert leverage by applying some sort of tangible pressures, medical service credit granters have few means of enforcing collection. Thus in this case, the mildness of the early stage devices the creditor employs is explained not by a desire to preserve good will but by not having anything to use as a weapon. Hospital collection is mainly a matter of applying conventional routines to motivate payment and then writing off those that do not come through and handing them over to an agency. Hospitals are not equipped to carry out personalized collection; big institutions rely on the computer to handle every stage of collection and most of the effort is made through impersonal notices and demands. There are not routine appeals; only debtors with very large bills receive personal letters or calls, although hospital collectors are usually willing to work out special payment plans with debtors who contact them. The hospital's routine dunning process commonly requires four to six months or more, but when it ends a large number of accounts, particularly emergency room and out-patient bills of smaller amounts, remain for collection agency follow-up.

Doctors and dentists (and medical service firms to which patients are referred for tests and X-rays) are among the most

common of credit granters and the least effective of collectors. Professional etiquette still remains to discourage cash payment or contractural arrangements or even careful investigation of patients' ability to pay at the time the services are received. Because loose credit practices invite collection problems they are not infrequent--and the load of collection chores is placed on the regular office secretary as part of her accounting duties. The system follows the general collection pattern, moving from polite reminders and inquiries to sterner threats, but the effort is disadvantaged by lack of specialized manpower. The secretary hasn't time for systematic treatment and monitoring of its effect. The first step is usually a gently worded note on the regular statement when the bill is two or more months overdue; the next two or three monthly bills may carry a reminder sticker with a more strongly worded message; eventually, usually between the fifth and eighth month of delinquency, a more threatening sticker may be affixed, vaguely suggesting legal steps or referral to a collection agency. At this point the secretary may phone a few times, first asking what the problem is and then warning that legal action is forthcoming soon.

The professional service creditor is in a weak position to enforce collection because threatening to turn the account over to an agency is the only recourse he has to intimidate a debtor; there is no repossessible property involved and denial of future service is not much of a threat since other sources are usually available. The personal nature of the doctor-patient relationship may generate guilt and embarrassment in the delinquent debtor but

this is not a powerful tool in competing for debtors' dollars against creditors who can apply much more tangible pressures. The best chance the medical professional has to minimize his delinquencies is to begin collecting early:

> One office assistant says, "I try to collect as near the 'Peak of Gratitude' as possible." When people are ill or in pain, relief of the trouble is the major concern but after they are better they quickly forget. As time passes, the fee, which first seems a small price to pay for restoration of health, appears out of proportion to the benefit received. It takes a surprisingly short time to drop from the peak of gratitude to the valley of cost consciousness.[50]

Most people tend to pay the doctor last and the harried delinquent debtor is almost certain to put the doctor or dentist bill at the bottom of the pile, knowing that outside of dunning notes and phone calls, not much will be done to him--at least for awhile. Eventually, but rarely before the sixth month of delinquency, the doctor will act on his threat to send the account to an agency, although he still might withhold permission for court action. Hospitals and medical laboratories will command more attention for their accounts go to the agency without delay and once there, they receive prompt action from collectors.

Organizational Processing of Defaulters

We have reviewed the various operations involved in creditors' routine management of accounts receivable which take the consumer debtor from a credit transaction through the initial stages of the collection system. As we have seen, there are some variations on the standard pattern of debt collection, but for most creditors the final step in this routine processing system

is a systematic write-off procedure which eliminates the delinquent accounts that are uncollectible by regular techniques. After charging it off, the account is handed over to a collection agency and action on the part of the creditor is suspended. (Since the debt has already been taken as a loss anything the agency may recover, minus a substantial fee, is profit for the creditor.) When a debtor's account has arrived at this, the fourth stage of the collection process, and is about to receive the drastic treatment a collection agency typically affords it, we regard the indebtedness condition as "default" and the debtors with whom the collection agency deals may be termed "defaulters." We now turn our attention to the devices and strategies agencies use to collect default debts for their credit granter clients.

Collection Agency Strategies and Procedures[51]

Until the time arrives for the account to be passed on to the collection agency, the efforts put forth by the original creditor are always tempered by the need to preserve good public relations. For most credit granters, the debtor represents future business which should not be discouraged by ruthless or offensive collection tactics, but agency collectors are not hampered by such considerations. When the debt reaches the final stage of collection the policy of preserving good will is totally abandoned. This, in fact, is the characteristic that differentiates the stage of the collection system commonly carried out by independent collecting

organizations from the stage that precedes it, even though the debtors involved are essentially the same.

The independent collector has several advantages over the original creditor in enforcing payment of debts.[52] One, the advantage just mentioned, is the freedom to disregard debtors' feelings and attitudes. The actions of agency collectors are bound only by concern for laws governing property ownership and personal rights and by the need to give consideration to debtors' possession of assets before legal steps are undertaken. Consequently their means for accomplishing collection are far less restricted; the range of devices available to agency collectors includes all those used by the creditor and an array of more drastic sanctions as well. Moreover, the agencies do not share creditors' compunction about applying severe measures without delay, for they can assume that creditors' previous repeated appeals and threats have screened most well-intentioned debtors out of the enforcement process leaving the hard resisters for them to deal with. By the time the obligation turns up as an agency "collection account" the debtor rarely gets the benefit of doubts, particularly as to the reason for his failure to pay. In his relationship with the creditor's agent the debtor is definitely on the defensive. The series of threats the creditor has used as sanctions against him during the preceding collection stages also work to the agency's advantage; debt collectors have a fearsome reputation among the general public and creditors' references to the consequences awaiting the nonpaying debtor magnify his fears and increase the effectiveness of agency strategies.

> When the line to debt default has been crossed and collection messages have begun to arrive, the consumer suffers intense guilt and experiences great fears of things he cannot name. He imagines that a powerful, authoritarian mechanism has been set to work but precisely what this power can and cannot do to him he is unable to say. He may suspect that his credit rating is in jeopardy and he may have vague apprehensions of legal consequences. Innocent of specific knowledge, he generally assumes the worst, but he does not know what that is.
>
> Every creditor and collector knows that his main weapon is this shapeless anxiety and the credit-collection world has found it in its own best interests to nourish this dread. Collector's threats imply awesome legal power . . . [but] the collector's clout is derived mostly from subtle manipulations of the debtor's fears.[53]

From an administrative viewpoint the independent collector has another advantage: all credit granters have some delinquent accounts and some system for collecting them, but beyond a certain point their own system is seldom efficient enough to justify the costs of perseverance. Agencies, on the other hand, are geared for processing delinquent accounts on a bulk basis and for continuing the collection effort long after the creditor's system finds it economically unfeasible. Although their operations center exclusively on accounts that creditors have given up on or declared inexpedient to pursue, collection agencies' average success rate of about 30% attests to the potency of their methods. We will be looking at some of those methods as we examine the general pattern of the agency debt collection activities which follow the original creditors' efforts.

Recalling our discussion of the part played by the original creditor in debt enforcement, we explained that the collection process has its beginning in the account control system operated

by credit department personnel. It automatically selects past-due obligations out of the bulk of credit transaction records, identifies them as delinquent accounts, and sets the collection system in motion with the application of a first-stage collection device. It was noted that the communications of early stages are designed to be very general and impersonal because there is considerable diversity within the debtor group at which they are aimed. The innocuous messages sent early in the delinquency period tend to activate a self-selection process by which most honest but forgetful or procrastinating debtors are eliminated from the system. As collection activity proceeds, collection efforts necessarily become more personalized. After the debtor group has been narrowed down by elimination of most "circumstantial" cases, creditors turn to harsher devices appropriate for hold-outs who require such measures. Because these devices are more severe, differentiation among debtors then becomes more important; the aim is to avoid coddling recalcitrant debtors and at the same time to avoid antagonizing well-intentioned debtors with unnecessarily harsh treatment.

By the time the third collection stage is under way a far less heterogeneous group of debtors is represented in the creditor's delinquent account file. The majority of those involved are now of the irresponsible-indifferent type, mismanagers and imprudent consumers who overbought on their credit privileges, but this group also includes that one debtor in a hundred who never had planned to repay. Among the debtors referred to an agency there will be some "unfortunates" who were not so identified by the

creditor's sifting system or whose financial situation only just emerged as a desperate one (possibly leading to eventual insolvency) due to the occurrence of an expected calamity. This, in general, is the aggregation whose defaulted obligations are to become the raw material of agency debt processing. Insofar as debtor differentiation is based upon reasons for default (actual or imputed), agencies begin their part of the process with a debtor group considerably more uniform and more difficult than that first encountered by the creditor's collection system. As one writer observes,

> About 95% of the U.S. population pays bills on time, 4% pay late, and only 1% are total stiffs. By the time a debt gets into the bill collector stage, the collection process deals less and less with the easy 95% and more and more with the recalcitrant 4% and the 1% incorrigibles. As a result, more and more time and effort must be spent to produce results from a more and more difficult group of debtors.[54]

While there is more uniformity among the defaulters they represent, there is a great deal of diversity within the collection accounts that are continuously pouring into the agency's collection system. There is considerable difference among them in terms of the difficulty of collection they present as a consequence of their age and the amount of effort already expended on them. It is the general practice of some credit granters (hospitals, for example) to refer accounts to the agent after giving them only perfunctory treatment; other creditors submit accounts after having worked them thoroughly over a long period of time and after every feasible means available to creditors has already been brought to bear against the debtor. Hence collection accounts may cover fairly recently defaulted

obligations or they may be as old as a year or more when they arrive at the agency. In some cases creditors provide a good deal of information about the debtor and details about the debt transaction and their own efforts to collect; just as often they supply very little help to the agency, some accounts are even without a current address.[55] Collection accounts vary widely in size; the indebtedness may be only a few dollars or it may be in the thousands. There is also considerable diversity in the nature of the merchandise from which the debt originated. A very large part of collection accounts represent unpaid service credit transactions, particularly doctor and hospital bills, but accounts come from many other kinds of service establishments such as employment agencies, veterinary clinics, utility companies, modeling schools, lawyers and morticians, to name but a few. Accounts are referred from many kinds of consumer goods sellers as well, including retail outlets, mail order houses and door-to-door vendors, and they represent a broad variety of goods. Unpaid debts in agency files cover everything from jewelry, furs, flowers, and home library sets to clothing, auto parts and eye glasses, to home repair materials, fuel oil, and occasionally even foodstuffs charged at the neighborhood grocery. It goes without saying, that while all agency accounts require some effort to collect, the difficulty varies considerably with each of these factors we have mentioned.

Organizational processing of this account melange obviously requires the operation of a system for sorting out debts and debtors to be approached with different techniques. With the tremendous

volume and variety of collection accounts, and the need to treat them promptly and inexpensively, fine-screened sorting and careful investigation of debtors' reasons for default are ruled out. The agency's differentiating system closely resembles that used by the original creditor; it relies on the same crude typology by which debtors are relegated to one or another of the three classes recognized by enforcers at other stages. Although the creditor and the agency, occupying successive roles in the collection process, employ the same basic strategies with the same general aim, their procedures differ somewhat in content and timing. As we have seen, the aim of the general collection system is to process huge numbers of debtors with efficiency and economy that precludes customized treatment. Although the circumstances of individual defaulters may vary widely, enforcers work with a crude typology that can sort out debtors only by segments. Each stage represents a specialized form of collection effort found to be effective with the debtor segments who have progressed to that point in the system. The differentiating process, which appears at each enforcement level, is most efficiently operated when it serves to select out debtors who can be identified as exceptions to the type preponderant at each stage. During the creditors' collection stages forgetful and unfortunate debtors are the greater in number, so it is the tough cases that are picked out and for them the enforcement process is accelerated. Their failure to respond identifies them to creditors as irresponsibles or evaders; they are moved swiftly into severe sanctioning while the remaining bulk of

delinquent debtors continue to be treated routinely with appeals and mild threats. Similarly, the efficiency of the agency system requires that the standard pattern of enforcement be that which is most effective with most cases, with a means for picking out exceptions. Since collection agencies deal mainly with recalcitrant defaulters, the strategy is worked the other way: it selects out the remaining few with whom some lenience or forbearance produces results--principally the debtors coping with misfortune--and all others become candidates to receive the harsh treatment designed for the types of debtors who respond only to drastic or legal actions.

The stage of the general collection process manned by agency personnel constitutes a new dunning and aging cycle. The agency's sequence of efforts moves toward severity at a faster rate than the creditor's cycle and is normally not as drawn out, although its treatment of insubmissive debtors can extend over months or even years. The new sequence begins with a brief form letter (or a notice resembling a computer punch-card) that bears a brisk announcement to the debtor that his account is now in the collection agency's hands. The message is typically some version of this:

THIS ACCOUNT HAS BEEN ASSIGNED FOR COLLECTION

PAY IN FULL AT ONCE

WE WILL WITHHOLD ACTION FOR SEVEN (7) DAYS

This first notice, which begins a new phase of collection, serves as the primary screen for sifting out those unfortunates and less-resisters whose delay in paying has caused them to be propelled to this stage of enforcement. Evidently it is sufficient to convince many of them that the creditor had not been making hollow threats, since a high proportion of agencies' 30% successful collection results from this initial effort.

Although legal measures are the main strength of agencies, particularly those which have legal sanctions built into their collection system (and they will indeed put them to use), psychological pressuring is an essential feature in their strategies. Apart from actually taking court action, the agency's strongest weapon is the appeal to fear and the threat is their most frequently used collection device. Much of the success of agencies' psychological warfare approach is attributable to the effectiveness of two propaganda themes which usually accompany and support collectors' threats and emanate in countless forms from every other organization in the credit world as well. One is the importance of credit to the consumer, the value of a good credit rating, and the certainty that a poor payment record, or an unpaid debt, will destroy it. A second, related, set of ideas seeks to create an image of credit-collection organizations as awesome, powerful, omniscient, and somehow interlinked as part of a universal credit-collection network. (One wag observed, "Consumers are led to believe that all the nation's credit bureaus, collecting agents, banks, finance companies, credit card concerns, and major retailers are interconnected like ICBM

sites.")[56] There are, of course, elements of truth in these themes but credit organizations are not all-knowing or nearly so accurate and thorough, and they are not part of an instant-action linkage as many people believe; nor are collection agencies vested with such awesome powers as they imply.

The agency's appeal-to-fear messages (almost always accompanied by some positive propaganda) are conveyed in a variety of ways--sometimes as intimidation by suggestion, often as explicit threats. The message of the announcing notice shown above provides an example of the use of threats (for which there are no solid grounds). Its order, "pay in full at once," is meant to intimidate; it belies the fact that this notice actually serves the same purpose as the creditor's appeals, to encourage debtors to volunteer reasons and request special arrangements. Moreover, the exactness of the stated grace period--"seven (7) days"--is incongruent with the ambiguous threat of what the consequences will be--unspecified "action." This notice resembles a computer card (and some agencies actually send punched cards as notices whether or not there is a computer to go with it); such devices hint that the card can be fed into a computerized system, necessarily huge, and bring instant termination of all credit privileges. The group of agencies which subscribe to the automated notice service which we describe below send a series of dunning messages on a form designed to communicate an oblique threat to the would-be evader: on the reverse side of each card is a design featuring a United States map covered with tiny dots representing affiliated collection agencies; far distant places are

identified around the map--Newfoundland, Sweden, Hawaii, Australia--and superimposed on the map is the trade association symbol which is based on a world globe figure. Below the map is a clear warning that the debtor cannot hope to escape the ubiquitous collector: DISTANCE MEANS NOTHING TO US. Beside the map are statements communicating positive rewards--PAY TODAY SO YOU CAN CHARGE TOMORROW!--and implied threats of credit annihilation: "Your credit record is available to any one of our 4,000 ACBofA member offices throughout the United States and Canada."

The agency's collection system can conveniently be viewed as two strategy phases: the first is the pre-legal strategy phase; it consists mostly of dunning by mail and telephone and relies primarily on appeals and threats; the initial part of this phase (now conducted as an automated process in many agencies) begins with an announcing notice and continues through a series of tersely worded preliminary notices sent out over a short period after which the individual collector takes over. The second is the legal strategy phase which includes steps taken to secure court judgments and to implement such actions as wage garnishments. The pace at which these devices are employed is somewhat inexact and they are not applied routinely to all debtors arriving at this most severe stage of enforcement. The incidence of legal steps and the defaulters against whom they are taken are determinations made as part of the individual collector's work; it is the person in the debt collector role who makes decisions, on the basis of training, experience, and personal judtment, as to which debtors receive legal

sanctions and when and how often they are applied. The actions of individual collectors may be regarded as part of the pre-legal phase although they actually constitute a bridge between the two phases. In the next section we describe the pre-legal strategy phase of a typical agency using an automated preliminary notice system; after that we look at the procedures of individual collectors in such an agency and the kinds of devices available for use through the remainder of the pre-legal strategy phase. Finally, we will describe the last available collection measures, those which may be carried out against defaulters who remain in the enforcement career at the legal strategy phase.

Pre-legal Phase Collection Devices

Announcement of the account's arrival at an outside agency is the signal that the creditor's final effort has been spent. To debtors who have been receiving and ignoring threats and appeals for some time it appears as a definite turning point; for most of them it is the first instance of a promise actually carried out, and from this experience they (except chronic deadbeats and frauds) are likely to make the generalizing assumption that all future steps will be actions rather than words. This, together with the frightening and stigmatizing specter that bill collectors represent to most people, probably explains why most collection accounts are paid immediately after the first notice. In effect, the first agency effort reactivates the self-selection process; it eliminates the

debtors who are most easily intimidated and those who are having a hard time but can somehow come up with the money.

Despite their fearful assumptions, the debtors who capitulated at once could easily have put off paying for at least another month without suffering anything worse than coercion by written word. In most agencies the announcing notice is followed by a reminder letter and one or more final demands. Although the final notices always carry strong implications, if not explicit threats, that legal action is about to be taken, this first series of agency communications is usually only a continuation of the creditors' psychological pressuring. The final notice is seldom final because the steps provided by law to recover money can rarely be taken until a judgment is obtained in court, and this necessarily gives debtors more time and further warning. Until government regulations covering debt collection deception were enacted in recent years, agencies used practices and devices that made this stage more convincing to debtors. These restrictions prohibit many devices that agencies found effective, such as designing notices to resemble legal documents, adopting lawyers' phraseology, and using agency names and addresses made to look like government organizations or law firms. The ethical firms now avoid practices that are outright deceptive but all means within the law are freely used. At this stage it is mainly written communications but the messages they carry are intended to be intimidating, demeaning, and even insulting; their purpose is to provoke defaulters into paying or at least making themselves accessible to receive further inducements.

The actual notice series used by one agency group through the pre-legal phase provides an illustration. This series of notices constitutes an automated program designed to "work the account" for a six-week period; accounts remaining at the end of the series are assigned to individual collectors for further treatment. It is a standardized routine performed on a specific schedule by an outside firm; agencies from around the area which subscribe to this "pre-treatment" service send their incoming accounts to a central location each week where the notices are made up and returned to the agency for distribution. Designated agency personnel use a standard control mechanism to alter or stop the routine for specific reasons such as the receipt of partial payment, special terms made with debtors, bankruptcy filings, discovery of erroneous information, and so forth. The announcement notice that begins the series is followed in two weeks by five other notices sent at weekly intervals. Debtors who failed to pay upon learning that the agency had received his account are soon confronted with this message:

LET'S FACE FACTS

THIS IS AN URGENT MATTER.
THIS AFFECTS YOUR CREDIT RECORD.

Your continued silence will not help you. The only thing that will improve your credit record is to pay this NOW (if necessary contact us and we will help you).

Although it arrives two weeks after he has been warned of "action" forthcoming in seven days, it offers to help the debtor and thereby to improve his credit record. Then, in exactly seven more days, he

is advised about the importance of the credit privilege with notice number three:

URGENT--PAY TODAY

THIS MATTER CAN NO LONGER BE NEGLECTED.

In an emergency or when you need credit will you be able to get it?
Do not let your credit suffer!
Protect your credit and it will protect you!

One week later a different approach is tried--this an attempt to goad the debtor into making some sort of response by antagonizing him:

YOU ARE EITHER HONEST OR DISHONEST

YOU CANNOT BE BOTH.

Your creditor
believed you to be honest
when credit was extended.
Mail or bring payment to our office
TODAY.

Next comes the nearest thing to a threat of legal action; most debtors have heard of wage garnishments and the disfavor that debt problems cause with employers, so the implication is not lost on them:

WILL IT BE AGREEABLE WITH YOU--

If we make arrangements with your employer to deduct money each payday from your salary?

WE MUST HAVE YOUR IMMEDIATE REPLY.

Six weeks after the collection account has entered the system, and five strong statements have been delivered upon the defaulter, the agency limply proclaims--

FURTHER DELAY CANNOT BE TOLERATED.

We will resort
to other measures
if we do not receive payment
by return mail.

This ends the pre-treatment series. The account will now be put in the form of a debtor file and sent to the desk of the collector.

Although the content of these messages may seem trivial and hackneyed in the context of this analysis, they effectively accomplish the tasks for which this series of notices was designed: they are inexpensive devices which flush out those debtors who can be induced to pay in response to vague impersonal threats. They also serve certain practical purposes and thus expedite organizational processing by eliminating accounts which are unsuited to standard agency treatment. Disputed accounts, for example, are culled out and referred back to the client to save collectors wasting valuable time with them; most small debts are cleared up; in addition, valuable information about debtors' whereabouts is turned up during the PT program (through the post office address correction service) and this is incorporated into the debtor files to be used by collectors. Most important, the automated notice series identifies (and prepares) debtors who will go on the next stage of the

collection process. In the user's manual prepared for agencies subscribing to the service we see this idea expressed as follows:

> PT softens up the debtor for unit collectors. If the debtor has received the six notices and made no response, then the unit collector can be assured no dispute or hardship is involved, the address is good, and normal "soft sell" methods will NOT collect the account.

In general, whatever the style and form of early treatment, it accomplishes the important screening and sorting function. In using such devices with all their incoming accounts, the agency is administering still another in the series of debtor tests. Those debtors who make an acceptable response are not passed on to immediately receive drastic or legal sanctioning; but those who do not pay the debt or reach an understanding about it with the creditor or his agent have failed the test and they are progressed to the next step in the enforcement career.

The Collector's Work

The individual collector's handling of default debts represents a step in the collection process which bridges two significant stages in the career--the period of routinized "private" enforcement by creditors (frequently including a reiteration of their efforts in agencies' initial screening) and the period of "public" enforcement wherein legal remedies are used on the creditors' behalf. For some defaulters this step is merely a brief prelude to the legal action stage of the collection system while it may be a protracted period of treatment for others. Which route a given debtor takes is largely, but not entirely, up to the

collector. The collection agency's function is generally organized around the assumption that all debtors (save those who arranged special payment plans in response to initial notices) are enroute to the courts and hence the collector's principal function is to carry out the processing necessary to implement legal steps; this includes such tasks as obtaining creditors' written consent to start suit, verifying the debtor's whereabouts, and determining whether he is employed or has assets. On this assumption, all debtors with whom the collector deals are candidates for legal sanctioning so collectors' work is largely routine processing, but it in fact involves still further screening and filtering out of defaulters who will receive alternative collection treatment. Although some defaulters are indeed whisked through a preliminary processing and sent off to the courts, a great many others continue to receive threats and appeals directed to them by collectors via mail or phone--primarily because legal measures cannot be used against them for one reason or another. In still other cases the debtor is able to gain a temporary reprieve from legal enforcement; collectors often reassess defaulters on the basis of their responses to the personalized probative measures directed to them in this stage.

In the next section we look into the interaction that takes place between collectors and defaulters as we consider the way in which collectors carry out their part of the serial testing and identifying system that structures the collection process. Before examining the phase of debt enforcement manned by agency collectors,

however, I would like to describe something of what collectors' work entails in order to show how certain features of the job itself affect the collector's handling of debtors, and influence their decisions to immediately graduate certain defaulters to the next enforcement level while others are detained for milder control and monitoring. This characterization of the collector's work is based on my own experience as an agency collector; it is intended as illustrative rather than representative of all collectors' jobs. Obviously there are many variations among agencies and their procedures, but all agency collectors are similarly guided in the performance of their work by structuring procedures and surrounding circumstances. The collector's function is an integral part of the enforcement process but the decisions collectors are required to make as part of that process are not entirely impersonal or mechanical; objective weighing of factors pertaining to the debtor and the debt is never solely the basis for defaulters' assignment to the severe collection regimen. I have selected three aspects of collectors' work which seem to have particular importance in this regard: the first one is the way in which collection agency operations make it possible for agency collectors to use (or convincingly threaten to use) measures that are unavailable or impractical for individual creditors; the second has to do with the essential importance of information about debtors and the way in which it is obtained and utilized by collectors; the third is the factor of work incentives and their influence in terms of collectors' differential treatment of defaulters. The first two

features make themselves apparent in the work collectors do immediately following the initial agency treatment described earlier.

When the pre-treatment series ends, a debtor file is prepared for each collection account and sent to the collector's desk. It takes the form of a large manila folder suitable for containing whatever relevant materials are accumulated through the various phases of agency treatment (bills and memos describing the indebtedness and the agency's agreement with the creditor-client, copies of any legal documents as may be originated, letters from the debtor, and the like). The outside bears the debtor's name, address and phone number, and data pertaining to the debt--the name of the creditor-client to whom it is owed, the amount, and when it was incurred. There are also places provided for the different agency personnel to record subsequent activities concerning that account: in one area the cashiers post the dates and amounts of payments received; in another (headed "Suit Memorandum"), the supervisor records the dates of summonses issued, dates and amounts for which judgments are obtained, the details about court costs and garnishment fees as they are incurred and paid off. There are four sections for collectors to record information generated in the collecting process: one for updating the data on the debtor's whereabouts and employment status, one for revisions in his indebtedness, one for listing notices sent to him, and a large area (headed "General Information--Promises, Etc.") in which the collector keeps a history of collection efforts and the debtor's responses to them. The hundreds of debtor files covering active collection accounts,

alphabetically ordered, are kept in a bank of file cabinets; each collector is assigned an alphabetical segment of debtors from whom collection is to be made. (In my work experience, each of the six collectors was responsible for eight drawers full of debtor files representing an unknown number of debtors and accounts to be processed; the mandate is given collectors in terms of dollar amounts, not numbers of debts. Each collector was expected to produce $5,000 to $6,000 in collections per month.)

Since a folder is prepared for each account as it leaves the "pre-treatment" series it would appear that each debtor has but one account, but by no means is this always the case. Hence when folders reach the collector's desk, the first task is to remove those belonging to debtors for whom there is already an active account in file; the information and account data on the new folder are then consolidated with that of the existing file. This procedure pools all the indebtedness of the individual debtor which is held by this agency, whether owed to one or many different creditors. By lumping together all of his debts to be treated as one, the agency brings a drastic change to the situation of most defaulters; it often paves the way for immediate use of legal actions which were unavailable or unjustified before, but are now warranted by the substantial total of the accumulated debts.

Apart from this direct effect resulting from the input of new indebtedness data, the file-consolidating procedure also produces new information which is an important aid in making the collection. It is immediately useful for updating files and to

provide new leads for locating and contacting debtors, but fresh information also carries as a bonus the capacity to generate additional knowledge. Collectors always work under the handicap of a paucity of information about debtors; people in debt trouble are understandably reluctant to reveal facts--for some it is a necessary protection against harassment and a way to buy themselves some time and for deliberate evaders withholding information is the prime device. Trying to obtain facts about debtors' whereabouts, assets, and jobs is almost as large a part of the collector's work as is performing the dunning operation. Collectors have at their disposal the credit bureau files and various directories, but the information contained in these sources is never complete and often obsolete. To establish a useful documentation that will lead to a successful contact and collection, the collector must piece together whatever facts can be gleaned from a variety of sources; typically, where no current facts are at hand few can be obtained, and the collection effort is at a dead end. The arrival of a batch of new folders brings a change of pace to collectors' work; this fresh information, introduced as the files are consolidated, often makes it possible for the collector to immediately resume treatment or put to use measures which had been stymied by lack of knowledge about the debtor. At the very least, even a fragment of new information can begin a chain of events leading to contact with the debtor or making his assets accessible. To make this more clear, I will illustrate using an example from my experience: a major client, a hospital, made a practice of submitting the debtor's

patient admitting form to serve as a document of its debt claim and commitment to the agency. These forms contain a wealth of personal data incidental to the debt iself--including the debtor's address, employer, phone number, social security number, and the like--which are immediately useful. What is not so obvious is the fact that bits of this data can be put together with existing facts that had thus far proved inadequate; for example, the debtor's birth date, middle initial, spouse or parent's name often supplies a link to identifying him as a listing in other information sources. It also proved helpful to know the date of the hospital admission in association with a given address or employer, for this revealed whether these facts could be used as revisions in current files; since hospitals typically submit unpaid accounts promptly, their data are frequently more recent than most creditors'. This hospital's collection accounts were referred to the agency in large batches and almost always included the names of many debtors whose files were already active; when a block of these accounts, rich with information, had finished the PT series and reached the collector a flurry of collection activity ensued. In effect, the input provided by this one client permitted the successful collection of the debts submitted by a number of other creditors (many of whom had contributed little helpful information).

Information is also an important factor in collectors' choices among the various measures available for inducing defaulters to pay. The strongest of devices agency collectors may employ (i.e., legal means) cannot be put to use unless certain essential

facts are known about the debtor; a summons cannot be served without a complete and accurate address, a wage garnishment order cannot be issued (with large industrial employers) unless the debtor's identifying social security number is known. Thus defaulters can resist collection efforts and protect their assets by withholding knowledge about themselves--and those who know this and make it a practice are the "won't pay" debtors. By the same token debtors who are not incorrigible, those who evidence a willingness to pay as their circumstances permit (over longer periods), typically reveal a good deal of information about their affairs. As a result they make themselves accessible to harsh measures that could not otherwise be used. In many cases the agency collector can and does work out special payment arrangements with willing unfortunates--for the practical reason that such arrangements will produce payment. Special terms, however, require more of the collector's time and attention and for this reason work incentives attached to agency collectors' jobs become a factor. Agencies refer to their collecting personnel as "professionals" but they treat debt collection as a menial production job. The job is very simply structured: workers are employed on a (low-scale) hourly-pay basis, they are provided raw materials in the form of collection accounts, and they are expected to produce collections that meet sizable amount standards. I again draw illustrations from my own observation to show how this aspect of collectors' occupational role affects their treatment of defaulters.

As a positive inducement to produce, we were paid a monthly percentage commission on collections over $1,600 but there was stronger incentive in the fact that our daily receipts were tallied and reported to us every day--with a strong rebuke if the day's collections failed to meet the minimum expectation of close to $300 (and collectors could expect dismissal if their production was consistently low). Collectors have little alternative but to pass this pressuring on to debtors; despite their personal willingness to extend more time to unfortunates making genuine efforts to make and abide by special terms, the small periodic payments they could manage seldom add up to the daily quota set for the collector. Consequently, the agency collector frequently finds it necessary to resort to drastic measures (usually court action) which result in immediate collection of large amounts--and they, of course, fall first upon debtors who are most accessible. Doubtlessly there are many cases in which this upsets the efforts of people attempting to work their way out of a precarious debt condition by paying small amounts on several accounts; one can assume that some debtors, who would eventually have paid all their creditors, are forced deeper into trouble, if not insolvency, by the aggressive collection activities of one. In general, the defaulters who are quickly progressed to advanced enforcement levels are not invariably the recalcitrant; genuinely well-intentioned unfortunates can be dramatically thrust into the role of insolvent (or bankrupt) by an incidental feature of the enforcement process.

Advanced Stage Enforcement by Collectors

Using the outline of a general collection system to guide our discussion, we have described the strategies and devices available for use by creditors in carrying out the role of debt enforcer. Debtors not eliminated from the enforcement career by their efforts are automatically defined as recalcitrant or incorrigible and designated to receive further sanctioning. For lack of large collection facilities, and to preserve a good public image, creditors typically abdicate the process after its third stage, leaving it to the independent collection agency to utilize more drastic or legal actions on their behalf. Debt enforcement at the new stage manned by different personnel is a continuation of creditors' efforts and in many respects it is a reiteration of the creditors' three stages at a more intense level; an abbreviated and less decorous version of the creditors' early filtering process initiates agency collection activities, after which the debts of remaining defaulters become the individual collector's responsibility.

Advanced stage enforcement directed by individual collectors, in sharp contrast to the pre-treatment process preceding it, is neither impersonal nor mechanical and routinized. That is to say, collectors do not use identical devices with each account and the timing of treatments applied to any one defaulter is indefinite, almost erratic. (The collector's orientation is toward collections in terms of dollar volume--his concern is not with equality or regularity of debtor processing. This, in fact, is a

dysfunction of agencies often criticized by their clients, that collectors "cream the accounts," i.e., do not give them equal effort but elect to work with the easy ones, the newer debts and accessible debtors.) The tactics and devices collectors use during the enforcement period between pre-treatment and the legal strategy phase closely resemble the personalized appeals methods employed by collectors. Advanced stage strategy involves probing and inciting communications, persistent dunning, increasingly severe threats--all highly personalized--directed to debtors by mail and phone. These overtures, the mailings sent out to debtors, the content of phone calls, and whatever responses are made to them ("Promises, Etc."), are recorded on the debtors' files. This chronicle of collector-debtor interaction, together with the records of any payments credited, additions to the indebtedness, legal steps initiated, and address or employment changes, form a history of the collectors' "working the account" from which emerges a general image of the defaulter.

> Enforcement can be visualized as a series of actions and reactions; it is a progressive interaction which mechanically builds up a composite portrait of the defaulter. It is only through this interaction that the defaulter emerges as a knowable figure. What is identified by the bureaucracy as a debtor is no more than what the enforcement process itself can create. Typifications of debtors are constructed out of the knowledge which is generated by collection tasks.[57]

Files that have been of concern to the agency for some time become tangible representations of debtors; the history provides a basis for collectors to build a composite picture of the defaulter and, as new information is added, the picture is rounded out and

the debtor's identity grows to conform more and more to one of the three stereotypes that guide enforcers' activities. A voluminous file bearing a history of recurrent defaults on many creditors, several judgments, and frequent garnishment, for example, betokens a deadbeat--the incorrigible debtor; one showing repeated fruitless efforts to ascertain the debtor's address or phone and nonresponse to inquiries and probes identifies a skip--the evader, who is often a fraud. (The collector monitoring files such as these is watchful for a lead that might provide the opportunity to move promptly with the most drastic measures that can be brought against a debtor.)[58] Although the "feckless" (i.e., mismanagers and indifferent and irresponsible debtors) constitute a large element of the raw material of agency processing, and deadbeats and evaders are commonplace, many of the files represent debtors who are identified, as least tentatively, as unfortunates.

> The threefold classification scheme that stems from routine collection work is applied throughout the career; at every stage of enforcement, three types of debtor are regulated. At every stage, the unfortunates are eliminated and the professional and feckless debtors are passed on to the personnel who man the next phase. The unfortunate defaulter is resurrected afresh with each movement.
>
> All enforcers work in the same world of a few social types because they have a common need to explain why some debtors never pay, why some pay immediately after coercion is applied, and others pay after protracted enforcement. As a result the threefold typology is systematically used throughout the whole enforcement. Each group of enforcers takes up its predecessors' feckless and professional debtors and redefines them; people who respond to collector's letters are labelled unfortunate despite earlier classifications. There is a constant process within and between stages, an oscillation between dichotomous and trichotomous classifications. A collector's typology thus closely resembles a creditor's typology.[59]

The history-bearing file never produces a total image of the defaulter. Organizational procedures provide neither adequate time nor a place to record a thorough investigation; the image must therefore be constructed out of fragments of information from which collectors infer other qualities to help in building a picture sufficiently complete to support the debtor's placement as a type, but the assessment is rarely final. The defaulter identity which the file symbolizes is always in the process of "becoming." The developing record of the collector's interaction with the debtor, the devices he uses and the responses they elicit, represents a continuously forming and often a changing debtor image. As the career progresses, the collector's definition of inaccessible and unresponsive debtors as frowardly and errant becomes more firm while on the other hand, identifications of debtors who actively participate in the interaction--who respond with plausible explanations and show evidence of good intent by cooperating in arranging terms and making payments--tend to become more tentative. Hence enforcement by collectors must necessarily constitute sequences of actions carefully styled to optimize the chances of making collection from the unfortunate and at the same time to test the validity of his provisional placement as such. Much of collectors' activity is directed toward developing more complete pictures of the debtors who go with the files that cross their desks--images that reflect probable causes of default, thereby suggesting enforcement strategies which strike an appropriate balance between excessive leniency and alienating coerciveness.

The devices available to agency collectors are ostensibly direct demands for payment, but they also constitute the means for generating knowledge about the debtor. "Enforcement work can be described as a system of coercive probes which elicit information-bearing responses. The organization of those probes determines the resultant image of the defaulter."[60] It is the collector's task to orchestrate these "coercive probes," to use them creatively in forming strategies that will both produce an image of the defaulter and appropriately sanction him. The collector's function is thus a creative one; it is based on artful manipulation of the debtor but it can only be performed as an interactive role for it is the responses of the debtor from which the image is built. Collectors may use a variety of approaches in interacting with defaulters, but the strategies they devise must allow for at least the three contingencies which the enforcers' typology provides.

> A collection strategy must recognize that some debtors default for innocent reasons and that they would be alienated by tactics that impute dishonesty to them. Other debtors are considered too insensitive to appreciate the significance of what is done to them. A third group is defined as evasive and dishonest.[61]

The parsimonious classification scheme used by enforcers thus requires that collectors address their collection of raw materials with circumspection, differentiating among the debtors they sanction and applying to each of the three types the appropriate measures.

In effect, the collector plays both an enforcer and a gate-keeper role in the enforcement process. Defaulters who have

progressed in the career so far as this are all potential candidates for legal actions because drastic measures are standard routine at this stage. As long as the requirements for them can be met, i.e., the indebtedness is large enough, the creditor gives his consent, and the debtor is accessible and known to have assets, the collector may (and is instructed to) order legal action started at once--no warning need be given. In many cases, however, these requirements cannot be met and other measures must be used, or the collector may opt to try another approach; frequently debtors intervene in an attempt to stop or delay immediate referral to the court. In such cases the collector has a discretionary function. The role of collector as enforcer may entail no more than preliminary fact-finding and paperwork preceding legal steps or it may involve screening and monitoring and sanctioning activities over a period of time. Collectors may impose continuous sanctioning on recurrent defaulters who have become known as deadbeats or they may pilot debtors through a prolonged period of constructive rehabilitation--but they can bring enforcement to an abrupt turnabout if legal steps become warranted or feasible. The ways in which collectors create different enforcement strategies by varying the use and sequencing of the devices they have available can best be explained through illustrations; I will draw again upon my participant observation experience recognizing, of course, that there are differences among agency office practices and wide variations in the styles of individual collectors.

As new files arrive from the pre-treatment series to be merged into the mass of existing ones, the collector puts them through a modest screening process to bring to light those that appear to be easy collections. If a working phone number or current address is shown or can be quickly located in a directory, the account receives prompt attention. If the matching check shows that no previous file had been originated, the first device will be a diplomatic but firm notice (in the form of a business reply envelope) bearing a message reminiscent of earlier reminders but of somewhat greater urgency as, for example, in the notice shown below. Where a phone call is possible it is the preferred medium for the initial overture and generally the idea expressed is the same.

THIS ACCOUNT
HAS BEEN RECEIVED FOR IMMEDIATE COLLECTION

Perhaps you have not intentionally neglected this obligation, but it is seriously past due and it must have your immediate attention.
You can do one of two things if you desire our cooperation:--

1. You may enclose payment in full, payable to the undersigned, and mail in this envelope immediately.

or

2. Contact the undersigned at once either by personal call, telephone or letter and arrange for settlement.

The debtor's reply, duly recorded on the file, becomes the foundation of his emergent debtor identity. If he pays, of course, he leaves the career; if he accepts instead the second condition of agency

cooperation (arranging for settlement), the collector will negotiate an agreement, thereby conferring on him the identity of "unfortunate." Debtors who make agreements and stick by them over a time can earn the collector's confidence so that a payment missed or delayed may go unheeded. If, however, the debtor soon appears capricious about the agreement, the tenuous trust is shattered; the collector's strategy immediately takes on the tone of one who has been personally betrayed. Provided the prerequisites can be met (the client agrees, indebtedness is at least $50., the debtor appears to have assets), the collector needs only to rubber stamp the file--SUE--and the debtor's fate is sealed. If that alternative is precluded the collection strategy becomes a dunning sequence, the mailed version of which begins with:

> Y O U H A V E F A I L E D
> TO KEEP YOUR AGREEMENT
>
> YOUR PAYMENT OF $________ WAS DUE____________
>
> According to our records, neither payment nor valid reason for non-payment has been received.
>
> We ask that you send us the amount in today's mail.
>
> Don't lay this addressed envelope aside. Attend to it right now.

Depending upon the size of the indebtedness and the assets and accessibility of the debtor, it may be continued in call after call, notice after notice. One strategy builds on debtors' guilt resulting from the promise broken: "YOUR PROMISED PAYMENT on this account has NOT BEEN RECEIVED. Bear in mind that installment privileges were

agreed upon AS A FAVOR TO YOU, NOT US. We agree to such settlements ON YOUR FAITHFUL PROMISE TO PAY REGULARLY." Another tack is directed to fear; despite the fact that legal steps are ruled out (else they would have been used), threats of legal steps are the warhorse of this strategy. Curiously, in most such warnings of legal actions the badness is expressed not in terms of stigma, but as a reasoned statement about their money costs--for example:

> COOPERATION COSTS LESS THAN LEGAL PROCEDURE
>
> Would it meet with your approval if the amount of $_____ was added to this account?
>
> That is the estimated costs for process server's fees, court costs and other charges, if legal procedure is instituted by your creditor to collect this claim.
>
> You can save considerable money by paying this account now.

Several such notices may be sent, but unless some turn of events makes legal action feasible continued efforts are likely to be unproductive. The file, no longer representing an unfortunate, will soon be left to reside in the drawer until happenstance turns it up again. Eventually it will resurface in the irregular follow-up procedure known in agency parlance as "working the bins." The collector always has one file cabinet drawer at desk-side; these files are reviewed and treated as an activity interspersed between more urgent matters. Some accounts are eliminated--as when the debt is voided by the statute of limitations, the debtor has completely disappeared, or it is conceded that he actually is penniless--the

account then is returned to the client as uncollectible; accessible debtors will at some time by surprised to receive another call or stern note long after the matter appeared to have been ended.

Now let us consider debtors who, in response to the collector's first contacts, decline both conditions for agency cooperation. This is the modal case, the debtor who professes an inability or unwillingness to pay either in full or in substantial partial amounts. A number of such defaulters express this choice of action by simply not responding and many (particularly those beseiged by several collectors) deliberately make themselves inaccessible. The strategy for these debtors usually involves considerable sleuthing, for no action can begin until the collector turns up enough information to utilize appropriate sanctions. Very often the phone will be unlisted so notices must be used, but so long as they are not returned by the post office a form of interaction ensues; _no_ responses to strategically sequenced appeals and threats display the defaulter's refusal to cooperate and pose him as deserving of the harshest of measures at any opportunity. Typically, the unwilling debtor can be reached by telephone at least once, and the general agency strategy aims at making _that_ call productive. Materials prepared by a national credit management trade association for use in indoctrinating collectors illustrates the approach:[62]

MOTIVATION IN COLLECTING

The first telephone contact gives you your best chance to collect the balance in full. Make the most of it! Remember, you're competing for the debtor's money. To succeed as a professional collector you have to beat the competition. . . .

> Every account turned over to the collection service by a credit granter is a difficult one. All the creditor's efforts have failed to produce payment. He employs the collection service to COLLECT IN FULL AT THE EARLIEST POSSIBLE MOMENT--and that's the business we're in. The name of the game is money today.
>
> How can a collector making a phone call convince a debtor to pay now when he wouldn't pay the creditor? The collector has to motivate the debtor, to MOVE him--that's what motivate means. As a collector, what motivating appeals do you have to work with? Debtors are people and people are different, but all individuals are governed by a number of INNER DRIVES. There are seven inner drives in most debtors: he has an inner craving for SELF-RESPECT; a longing for FREEDOM FROM WORRY; a compulsion to SAVE ADDITIONAL EXPENSE; a need to BE KNOWN FOR FAIR PLAY; an aspiration for THE SECURITY OF HIS FAMILY; an instinct to DO THE RIGHT THING; and a desire for freedom TO BUY ANYWHERE OR ANY TIME ON CREDIT.

The collector is given suggested phrases directed at each of the "inner drives" and told to "probe the debtor for that motivational key which will unlock payment." Another of these agency collectors' training manuals deals with telephone collection techniques. In this one the collector is given tips on how to put motivation into action through effective use of telephone strategies. First the collector is put in the proper frame of mind; then he is provided a list of common excuses he might expect in dealing with debtors and given suggestions on how to answer them:

> Get a definite promise for payment of the balance in full. Demand payment in full--today. SELL the consumer on the benefits of paying off this debt. MOTIVATE!
>
> Be prepared for an excuse and have an answer ready. Remember--today is the day to collect the account. Make this first call count. Motivate!! GO FOR THE GREEN!!
>
> Common Excuses and How to Answer Them
>
> SAYS HE NEEDS MORE TIME:
> "You have had enough time to pay this, now it is all due in full."
> "The time is up. We must have the money today."

SAYS HE IS NOT WORKING:

"Mr. _____, you didn't pay when you were working."
"Who is supporting you now?" (Use this answer to probe for someone who will pay for him, or for assets he can use to raise cash.)

USES ILLNESS AS AN EXCUSE:

"I am sorry to hear about your problem."
"Who is ill? Are you affected? Why didn't you let us know? How long will you be unable to work? Do you have compensation? When do you get paid?"

SAYS HE HAS NO MONEY:

"Your employer will advance you the money. Ask him today."
"Arrange to borrow the money at the loan office. I will call and make an appointment for you."
"Send me a check postdated to the date of your next payday."

COMPLAINS ABOUT GOODS OR SERVICES:

"I'm sorry about that but you had plenty of time to settle it before the account was turned over to us."

TRIES TO ARGUE:

"You and I have no argument. This matter must be resolved and it is to your best interest and mine to work it out as soon as possible."

REFUSES TO NEGOTIATE or SAYS HE WILL CALL THE CREDITOR:

"There is no need to call the creditor. You know that you owe this bill."
"How long do you think you can keep putting this debt off?"

Debtors display a variety of reactions to the first personal contact by a collector. As the list of "expected excuses" suggests, many are caught off guard, as the collector hoped they would be, and the call frequently ends with the debtor promising to send money (though some simply hang up the phone). Once again, many debtors--the ones who act on their promise--are exited from the career, leaving those who refused or reneged to be moved along. With these debtors the strategy is essentially a progression to legal remedies by which payment is extracted rather than demanded, and the immediate objective is to get the information to make these

actions possible. At this point an element of gaming frequently enters the collector-debtor interaction, with the debtor attempting to forestall the actions and withhold useful knowledge, and the collector trying to ferret out facts and impose legal sanctions. The debtor's gaming tactics include refusal to answer notes and calls or unlisting his telephone number, and such maneuvers as sending occasional small payments that keep the situation ambiguous; in the collector's arsenal are the standard dunning devices, a few good information sources, and a number of ploys developed from his experience. As a general rule, knowledge of the location of a debtor's residence can be obtained (from creditors' statements, special directories, or credit bureau files) and this is enough to permit the legal strategy phase to be launched.

The first step is to obtain a judgment. When the collector indicates that the account is ready for court (with the clients' written consent), the agency's lawyer files a complaint and a summons is issued and served. This step in itself is an effective collection device; people who have never been in court become fearful when a summons is served on them and many immediately contact the agency and arrange to pay. Upon receiving the summons, the debtor has 15 days to decide upon one of four alternatives: he can answer, affirming or denying the claim (the latter leading to a legal fight which may bring the case to trial); he can arrange a settlement by immediately paying in full or making acceptable terms (either informally with the agency or as an instalment agreement enforced by the court); or he can do nothing. With failure

to answer the summons, the plaintiff (client-creditor) is automatically awarded a default judgment; this is the outcome of almost all suits not resolved by a settlement.[63] A judgment is simply a court decree stating that the debtor does indeed owe the money as the creditor and his agent claim. After it is obtained there must still be collection of the debt named in the judgment, but the collector now has a new set of weapons available that can be effectively used both to seize the debtor's assets and as the basis for further threats.

With the sending of the official Default Judgment Notice the defaulter is given the new identity of "judgment debtor," and at this time several significant changes are brought to his situation. For one thing, his indebtedness has been increased by the amount of the court costs (about $30); in addition, he is now subject to the possibility of legal seizure of his assets by attachment and/or execution on his property or, as is usually the case, garnishment of wages or bank account holdings; moreover, such actions can be taken repeatedly on the same judgment and it remains in force for ten years unless the debt is cleared.[64] The legal strategy phase, however, is not necessarily characterized by action alone; this stage of enforcement is just as likely to be a prolonged psychological battle, and one in which the defaulter is not always a completely passive adversary. All of the steps required to set in motion the legal·machinery that actually procures payment take considerable time: after the collector stamps "SUE" on the file it is usually several weeks before a summons is issued and

then the process server has as long as six months to serve it on the debtor; after service there are two more weeks before the date returnable, and the collector cannot order a garnishment for another 20 days after a judgment is granted. During the periods between each of these steps the collector utilizes the leverage potential of the next event in attempts to get payment and thereby makes its occurrence unnecessary (and to get information so if attempts fail, its occurrence is made possible).

Some debtors can be expected to take the offensive and these, the ones who typically call the agency to express outrage when the summons arrives, are the most likely to scrape up the money or work out a plan with the collector and, at the last moment, escape the judgment debtor role. With the nonacting debtors, the use of coercive probes--communications that both threaten and elicit information--becomes more important than ever. The decided change in his position vis-à-vis the creditor's agent calls for a new strategy direction on the part of the collector and one which is harder to implement. In this, the final stage of debt enforcement, the collector is confronted with a debtor group that has made its way through a series of increasingly stigmatizing debtor identifications--from delinquent debtor, to defaulter, to judgment debtor. The judgment has made his indebtedness state a matter of public record and in addition, the debtor now faces the imminent possibility of wage garnishment which is not only disruptive of an already precarious financial position, but may very likely cost him his job. It is safe to speculate that, while

certain debtors in this group could be viewed as irresponsible or dishonest by almost any standards, some undoubtedly came to this unfortunate situation through events not of their own doing, but they nonetheless share the judgment debtor identification and the sanctions that go with it. At this level of enforcement the collector finds it very difficult to accept debtors' explanations as grounds for reassessing their debtor identity; only in rare cases can negotiations be opened and then it takes an extremely convincing display of good intentions backed up with a substantial partial payment. Unfortunate debtors who lack the resources or are too confused and frightened (or simply lack the social skills) to come forward and present their case, appear to the collector indistinguishable from the debtors who make no constructive response because they have no will to pay. Since all debtors, whatever their intent and however desperate their personal situation, are now candidates for the same enforcement measures, the differentiating process no longer sorts the well-meaning from the deadbeats; the principal purpose of the probing devices used now is to distinguish the judgment debtors who have jobs or assets. The strategy incorporating these devices is directed to learning the location of these resources and gaining access to them or convincing the defaulter that his best course of action is to relinquish them voluntarily.

Some defaulters, skilled in the art of debtsmanship, are able to elude the collector or make their assets inaccessible to him; but those who do not cover their tracks become participants in interaction episodes in which the collector normally has the

advantage.[65] With the accomplishment of each step toward the employment of collection devices provided by law (usually garnishment), the collector can make the threats of the next step's occurrence more frightening and the need to act more urgent. If the summons has not yet been served, the collector's tactics focus on the costs of court action and the adverse effect of a judgment on the debtor's credit record; these reasons are presented as more pressing after summons service in attempts to persuade the debtor to opt for a settlement before the grace period expires. (There is great power in the warning that a judgment will appear on the debtor's record, making it hard for him to get credit, and that it will remain there for ten years.) Even with the judgment in hand, the collector may exploit the psychological clout it carries before actually resorting to the legal remedies for debt recovery that it permits. Seizure of assets makes the collection, but several garnishments may be necessary to clear the indebtedness (and each one adds more back on it); more importantly, with the debtor's situation worsening as a result of wage seizures (especially if it leads to job loss) his likelihood of making voluntary efforts to pay is considerably reduced. Thus the dreadful eventuality of garnishment remains the best weapon, unless the collector is convinced that there is no other way but to actually carry it out.

If all the preliminary steps in the legal strategy phase prove fruitless--the debtor is not heard from or last ditch efforts to negotiate are unsuccessful--the collector is empowered to bypass the judgment debtor and move directly against his assets. It may

require some detective work, putting together whatever pieces of information can be turned up to discover the defaulter's place of employment, but once this is known the collector need only verify that he is currently working (by contacting the employer) and a wage garnishment can be ordered. (This is a legal process served on the employer requiring him to make payment of a portion of the debtor's wages directly to the judgment creditor or his agent.) Because of limits placed by federal law on the amount of earnings that can be taken, the first garnishment seldom satisfies the debt, but it has a strong impact upon the debtor; coupled with the distasteful fact that he unwillingly gave a fourth of his paycheck in payment of one indebtedness, and some $10 more was added to what he already owed, the debtor now has reason for concern about his job future.

> Employers resent garnishment. They resent the legal responsibility and the extra paperwork required to hold wages as security or to route wages to a collector. And the employer may personally resent the delinquent debtor, characterizing him as a deadbeat (often without investigating his reasons for indebtedness). Some companies fire for a single garnishment; others tolerate a limited number over a specified period.
>
> Threat of job loss is usually enough to make the most indigent debtor scrape up the needed funds--often through desperate means. But if the funds cannot be found and he is dismissed, his troubles have just begun. Not only is he likely to go even deeper into debt, but with a dismissal for garnishment on his employment record, another job will be hard to find.[66]

The debt enforcement career has its terminus in the agency collection phase which derives its coercive powers from the legal system, but where it will end for a debtor is hard to say. Most debtors pay up, sooner or later, and thus take leave of the career

somewhere along the way; a few manage to slip out of the career--they flee their creditors or stay under cover beyond collectors' reach. There are some people who never clear up their default obligations and they may remain of concern to collectors indefinitely, or until the indebtedness is no longer legally collectible. The differentiation of debtors which takes place throughout the system is, as we have seen, an essential feature of debt enforcement; dispensation from routine sanctioning is granted debtors enroute whenever they are recognized as having defaulted unavoidably and evidence the will to pay. The debt enforcement process provides for this contingency by accepting and often encouraging settlement arrangements but some "unfortunates" remain in the career at its final coercive stages nevertheless, their egress precluded by their inability to raise the funds needed to make payment as demanded.

A collection system armed with strategies for making people pay, confronted with defaulters unable to pay, poses an impasse which can only be resolved by one or the other selecting another course of action. When the repeated sifting, typifying, and sanctioning of debt enforcement has propelled defaulters to the status of judgment debtor, the collection system has about spent its productive efforts--little is to be gained by continued use of legal force if the debtor is without assets to seize (or if seizure renders him void of an income source). Patently, enforcers at this point have little choice but to watch and await the debtor's move.

Several avenues of escape or relief from collection pressure are open to the unfortunate debtor: as any debtor, he might consider fleeing or eluding collectors as logical possibilities--actions leading to imputed (socially unacceptable) identification as a deadbeat or skip. More likely, he will elect to occupy one or the other of two roles that are available to debtors by choice: he can depart the enforcement career through bankruptcy or he can take the role of "help seeker" and continue his efforts to pay over an extended period by enlisting the aid of an organization which can give him some guidance and protection. We will conclude our examination of the structural side of consumer indebtedness by considering a few aspects of these alternative default debtor roles as they bear upon the person-structure relationship between debtors and credit-debt organizations.

Default Debtor Alternatives

Bankruptcy has relevance for every sector of American society at every social level. It is a matter of concern to institutions--government, the law, the economy; it involves organizations of business, finance, the legal system, and social welfare; and affects people in the social roles of credit granter, consumer debtor, adjudicator, enforcer, and counselor. Most of all it impinges upon the affairs of creditors and the lives of debtors. A summary explanation of bankruptcy is not possible because for every social element bankruptcy takes on a somewhat different meaning. In this discussion we attempt only to indicate a few of

these diverse views of bankrupty, suggesting the kinds of conflict they have inspired and the implications this has for debtors seeking asylum from collection pressures. That our examination may be informatively grounded in as objective a description as is possible, we will first present portions of a simplified explanation of bankruptcy prepared by the Brookings Institution to preface a recent monograph on this subject.[67]

> The bankruptcy process was established to resolve in a fair and orderly manner the conflicts in interest that arise among the creditors of a debtor who cannot pay his debts. Other legal remedies are available that enable creditors to attempt to recover their claims from the property of the debtor; but if that property is too meager to pay all claims in full, one creditor's success in satisfying his claim causes loss to another creditor.
>
> The object of the bankruptcy law is to ensure that all creditors are treated fairly. . . . For centuries bankruptcy law served this object above all others. At the end of the 19th century, however, another object became equally important in the United States. The bankruptcy process became also a method of granting relief to the honest but unfortunate debtor, who through ill luck or bad judgment was burdened with more debt than he could afford. The earliest bankruptcy law contained no provision for discharging the debts of a bankrupt debtor; if the proceeds from the sale of his estate fell short of meeting all his creditors' claims, the bankrupt remained in debt for the unpaid balance. Today, however, not only does bankruptcy law allow discharges to be granted, but they are granted practically as a matter of course. The bankrupt is relieved of all liability for any balances that remain after his property has been sold and the proceeds applied against his creditors' claims. He is said to be "discharged from his debts."
>
> Bankruptcy proceedings begin with the filing of a petition in court asking that a debtor be declared a bankrupt. Usually a petition is filed by the debtor, who is seeking the benefit of a discharge from his debts; this is voluntary bankruptcy. An involuntary bankruptcy may be filed by creditors to force liquidation of the debtor's estate and the application of the proceeds to the payment of their claims.
>
> It used to be that a bankruptcy proceeding could be instituted only by the second of these methods. The idea that a person might procure his own bankruptcy would have seemed

> preposterous in view of the suggestion of past misdeeds or irregular conduct that clung to the condition. But attitudes changed, and finally debtors were empowered to file their own petitions in bankruptcy. Today such voluntary bankruptcies outnumber involuntary bankruptcies by more than one hundred to one.[68]

As this excerpt suggests, the rationale behind bankruptcy legislation has changed over the course of its development; the present Bankruptcy Act (enacted in 1898 and amended more than 90 times since) has come to reflect the interests of debtors as well as creditors. While no formal statement of objectives is contained in it, the present law is now generally accepted as having two purposes:

> The primary purpose of bankruptcy is to take over the assets of the insolvent debtor, reduce them to money and distribute the proceeds (after satisfaction of secured and priority claims) among the general creditors in proportion to their respective claims as filed and allowed by the bankruptcy court.
>
> Another purpose of the present bankruptcy law is to relieve unfortunate but honest debtors of the unsatisfied portion of their debts, with certain exemptions, after they have surrendered all of their assets, in order to afford them an opportunity to reinstate themselves. . . .[69]

The history of bankruptcy legislation ending up in today's basic law is marked by years of struggle as to whose interests should be served, and controversy continues to surround this issue. The causes and effects of bankruptcy are extremely complex matters and they are of far broader concern than to the creditors and debtors immediately involved but, at the risk of over-simplification, it can be said that a main set of battle lines has been drawn between these two interests. One side, the credit-debt structure, tends to regard bankruptcy as a license to cheat; undeniably, the

Bankruptcy Act, like most any piece of legislation, has been abused in some instances, but many creditors consider all bankruptcies to be abusive. The general sentiments of this side reflect the assumption that the bankrupt is wholly or largely responsible for his bankruptcy and that he is freely and willfully taking the easy way out of fiscal difficulty. This side harbors the notion that presently high bankruptcy rates are attributable to a decay in the moral fiber of our citizenry; it sees bankruptcy as a growing social ill with direct adverse effects felt most by the creditor. It does not regard creditors' lending policies as primarily responsible for increased incidence of default and bankruptcy. This view is illustrated in remarks by a bank executive which appeared in a credit management publication:

> Why bankruptcies are rising is a question that is absorbing lawyers and economists, as well as creditors <u>who are footing the bill for these losses</u>.
>
> Many observers place the major blame for bankruptcies on the retailers and lenders. In some cases this blame might be justified, but it is my opinion that most credit granters carefully screen their individual credits to the best of their ability, weighing the facts and credit information available at the time.
>
> Let's work together to <u>stop this bankruptcy cancer</u> before it becomes even more prevalent.[70]

This, the creditors' perspective, is largely a product of the growth and scale of bankruptcies since the end of World War II. In the years 1899 to 1920, the annual rate ranged around 20,000; between the two world wars some 50,000 cases were filed each year; in 1946 the lowest number in this century were recorded--10,196 cases, but a sharp increase occurred thereafter that was truly alarming to the credit industry. Bankruptcies hit an all-time high

in 1967 with over 200,000 cases, and nine out of ten of them were filed by individuals, not businesses. This trend is not likely to change; business filings have increased little and they account for fewer than 1 in 12 of total cases in recent years, but personal bankruptcies continue to rise. There were some 156,000 cases in 1973, about 169,000 in 1974, and the 1975 total is expected to be near 200,000. It must be conceded that creditors have some reason to take a dim view of personal bankruptcy on this scale, for they get little out of most proceedings. Unsecured creditors (who represent 80% of the claimants) receive about 7¢ on the dollar in asset cases, and three-fourths of all straight personal bankruptcies are no-asset cases in which there is no return to creditors.

Proponents of the opposite view hold that responsibility (or blame) for the bankruptcy boom belongs to the credit-collection system and that debtors who take relief in bankruptcy are only using the Bankruptcy Act for its intended purpose. Since the Constitution does, in fact, empower the Congress to "establish laws on the subject of bankruptcy throughout the United States," some have even built the argument that consumer debtors have a "constitutional right" to bankruptcy, i.e., to discharge their unpaid debts. In general, the rationale of those whose leanings construe the bankruptcy law to favor debtors lies in the bias and injustices found in the consumer credit-debt system. A representative expression of this view runs as follows:

> Against the depredations of collection agencies and their attorneys, against the blandishments of easy credit and the "never-never" payment plan, and against the financial pitfalls

of heavy medical bills, divorce settlements, business reverse and lawsuits, the consumer's final protection is his ability to take his financial woes to the bankruptcy court.

In our system of checks and balances, bankruptcy is the check against the tendency of merchants to load the consumer with impossible debt, and it is the balance against the legal right of the lender to collect his debts by every means short of extortion. In the business world the balance has swung heavily in favor of the debtor; it is just the opposite in the world of personal finance. Creditors have all the answers and the muscle to support them. (They know the "signals" of a debtor about to go under before he realizes his plight himself.)

If we therefore seem to be advocating bankruptcy, it is only because the weight of public opinion and moralizing has from our earliest Puritan days been all but overwhelming on the other side of the scale. It is time the consumer had his day in court.[71]

Understandably shocked by the bankruptcy statistics and the apparent shift in consumer debtors' attitudes, the credit-granting interests have been moved to find explanations for the high bankruptcy rate and to discover ways of stopping it. Their concern is shared by those who, taking a larger view of the problem from the standpoint of economics and social welfare, fear its effect on the stability and operation of the consumer credit system and the difficulty bankruptcy creates for the debtor and his family. Some put the blame on the bankruptcy law and its administration and, claiming bankruptcy has been made too easy, urge its revision or the abridgment of consumers' right to bankruptcy. Many place the cause in changed attitudes of consumers about using credit (i.e., expecting credit, regarding it as a right and not a privilege), in their excessive optimism and ignorance as buyers and borrowers, and in their irresponsible attitudes toward their obligations as debtors. Others hold the hard-sell practices of merchandisers

and lenders to be the source of trouble, and there is growing popularity for the notion that the problem lies in the credit institution itself, particularly in the liberal credit-strict collection policies of many credit granters.[72]

These speculations became hypotheses for a number of studies, many sponsored or conducted by credit and business-related organizations: they explored the implications of changing or doing away with bankruptcy provisions permitting discharge of debts; they examined the debt structure and the personal and social characteristics of discharged cases hoping to identify the culprit among creditors and debtors; they looked into the reasons why debtors turned to the court for relief in an attempt to discover whether a specific feature of the credit-debt system (e.g., harsh collection measures or garnishments) had put them over the brink; in general, they represent a concerted effort to determine the causes of bankruptcy with the aim of finding cures and recommending alternative courses of action that debtors might be encouraged to take.[73]

If there is a cure for high bankruptcy rates it obviously has yet to be found, but a clearer understanding of the problem and the people it affects has come out of these investigations. From them has emerged a picture of the default debtor who resorts to bankruptcy and the sort of circumstances that lead him to adopt this role; for the most part, the evidence points not to people deliberately setting out to defraud their creditors or "take" the system, but to consumer debtors who failed to realize where their spending and borrowing was leading them until their financial

situation became so hopeless there seemed no other way to go. Brosky, for example, concluded this from his study: "The findings of this report show clearly that many, perhaps a majority of bankruptcies are the result of dilemma, not choice, on the part of the bankrupt."[74] That is, bankruptcy was not used as a device enabling wily debtors to repudiate their obligations while they retain sizable asset holdings. Matsen arrived at a similar conclusion: "Petitioners, on the whole, are not trying to 'take' anyone. They are in Bankruptcy Court because there is no other way out of their financial dilemma." She found "a lack of orientation toward the future and an inability to identify financial danger signals and know what to do about them" to be crucial problems for the bankrupt.[75]

What, exactly, are the conditions which pose so great a dilemma for debtors as to lead them to step voluntarily into the stigmatizing role of bankrupt? Why debtors go to bankruptcy court is a question addressed repeatedly in bankruptcy studies; considerable insight is provided by the findings of the Brookings Institution research, one of the most recent and comprehensive works in this area. In interviews with a random sample of 400 cases in 8 federal court districts across the country, debtors were asked (in open-ended questioning) about the underlying _and_ immediate reasons for their action. In responding to the first question, why they were in financial difficulty--

> The leading reason, given by 31%, was poor debt management--too many debts, unwise refinancing, overspending. Their decisions about borrowing or buying depended only on whether or not they thought their current income could support another monthly payment; all too seldom did they evaluate the total cost involved or their future prospects.

> Next as underlying causes were family health reasons (sickness, injury, babies, death), 28%, and job problems like layoffs, strikes, and loss of overtime, 20%. Then 13% cited threats of legal action or hounding by creditors, followed by 10% who mentioned actual legal action--suit, garnishment, repossession. Another 10% referred to emotionally based problems such as marital troubles, drunkenness. . . .
>
> The debtors were asked about immediate causes--specifically, why they went into bankruptcy court. Their reasons naturally overlap those above, but the main cause is clear: 43% mentioned threats of legal action. . . . Typical comments were: "I knew I had to work and this was the only I could hold my job." "All I was getting was threats every way I turned."[76]

It is important to note that while studies find that people who become bankrupts are unable (rather than unwilling) to pay, they are not without resources. Brookings researchers report: "Bankrupts are not destitute. The typical personal bankrupt is a blue-collar worker with an 11th grade education who is earning more than $100 a week."[77]

Not by any means do all troubled debtors turn immediately to bankruptcy, but to understand why any take this route when they have income and a willingness to pay we must consider what other alternatives are open to them and look at some factors that affect their choices among the alternatives. First it should be noted that, in the United States, bankruptcy provides an avenue to complete and legitimate release from financial distress and it is the only means by which insolvent debtors can have most of their obligations wiped away; all other alternatives (aside from recourse to criminal or deviant behavior) require at least partial payment of debts.

> What is unique about the American system of bankruptcy is that it grants the honest debtor a release from his obligations, an unconditional release. . . .
>
> The United States is wholly atypical in its attitude toward the debtor. But this is not to suggest that our

> system is at all improper. The pressure of debt is fierce and persistent. Bankruptcy, while often described as a "last resort," is not; it is only one of a number of courses an insolvent may choose. Some appeal to their families for help. Some skip, abandoning their families and jobs along with their problems. A few steal. A good number adjust and remain in involuntary servitude to their creditors for all of their lives. Bankruptcy is the humane way out.[78]

Although some debtors can entertain the possibility of a "paying alternative" (even though their financial affairs are so badly out of hand as to make them eligible for bankruptcy), there is little likelihood of their being able to carry it out without some help. Indeed, this is precisely what is "desperate" about their situation--the debt problem created by ineptness or inexperience in money management and compounded by collection pressures is more than debtors can normally handle, however good their intentions. Those distressed debtors who choose to continue trying to meet their obligations must deal as best they can with repossessions, judgments, and garnishments as they arise, and the debtor who can manage his daily affairs and cope with repayment under these conditions is a rarity. Repayment out of future earnings is essentially contingent upon the debtor having some counseling and protection; he almost invariably has need for a go-between who can negotiate special terms with his creditors or hold them off with legal force. Thus it can be said that choosing the role of "help seeker" is the defaulter's principal alternative to filing bankruptcy. The two most important sources of help for debtors who want to try to pay up their obligations are the remedy available under federal law through Chapter XIII of the Bankruptcy Act, and the counseling and

prorated-payment services provided by debt pooling and credit counseling agencies.[79]

Chapter XIII, the Wage Earner's Plan, originated with the Chandler Act of 1938 which added important rehabilitative features for individuals to the bankruptcy laws during the Great Depression. It provides for a program of repayment conducted under court protection and supervision; the plan, which must be agreed to by the creditors, usually calls for a time extension to permit payment to be completed over a longer period and may also involve a composition whereby only a portion of the indebtedness is paid off, but this is seldom used. Although part of bankruptcy law, what the Wage Earner's Plan provides for is financial reorganization and not discharge of debt, hence people filing under Chapter XIII are known as debtors rather than bankrupts.

The Chapter XIII petitioner (who must have a wage, salary, or commission income) works with his lawyer to draft a budgetary plan to be proposed to the court and his creditors. It must show how he expects to disburse his income to cover necessary living costs and repay each of his creditors by spreading the indebtedness over a two- to three-year period. (He must also agree not to incur further debts beyond a limit set by the court.) If the court and a majority of the creditors accept the plan it is carried out under the supervision of a court-appointed trustee; he sets up arrangements for the debtor to turn over the amount of his income due under the terms of the plan (about 25%) and makes whatever disbursements are called for. Most creditors are willing to give

their agreement, knowing that the alternative will be a loss to them in straight bankruptcy; those who wish not to be included must be dealt with through separate arrangements. In any case, with the filing of the petition the debtor gains immediate relief from garnishment and other forms of collection harassment. The court cannot force debtors to comply with their repayment plan, but if they find it to be too stringent the plan can be revised or the debtor can convert it to straight bankruptcy. The debtor who simply stops paying finds his case reverting back to where it began, with creditors demanding their money and employing every legal means to collect--and straight bankruptcy is the usual outcome. As a rule, about half of the Chapter XIII petitioners do carry out their arrangements; for those who fail there is often a compelling reason such as illness or the plan they formulated turned out to have been unrealistic to begin with.

The foremost advantage of Chapter XIII is that it provides the debtor the help that he needs--it gives him added time to pay his debts, guidance in managing money affairs, and assurance of relief from collection pressures. (Garnishment, repossessions, or any legal proceeding against the debtor or his property are prevented by the power of the court.) Unlike most other helping alternatives, Chapter XIII gives the debtor training in good money management; it imposes on him the duty of devising a practical repayment plan and helps him develop self-discipline by putting a check on injudicious spending and requiring him to scale down expenses and live within his income. The Wage Earner Plan does not

carry the stigma of bankruptcy nor does it have the same effect on the credit rating. (When a credit or job application asks, "Have you ever been adjudged a bankrupt?" the Chapter XIII petitioner is entitled to answer "No.") As Chicago attorney Melvin Kaplan, a strong advocate of the plan, has noted, "Chapter 13 preserves the debtor's self-image and that, in the judgment of many consumers, gives the plan a meaningful advantage over bankruptcy. Old-fashioned values like dignity, honesty, and integrity are the real concerns of most of the people who come to this office."[80] This alternative, of course, is open only to working debtors (not self-employed) with steady incomes who can feasibly pay their creditors out of future earnings. For these people, who come increasingly from the ranks of the middle class, Chapter XIII has an important advantage over bankruptcy in that it gives the same protection from collectors but allows them to keep most of their assets. Finally, Chapter XIII is not without benefits to creditors and the public good; creditors get their money, although they must wait longer for it, and millions of dollars are salvaged in repayment plans that would otherwise disappear from the economy.

Despite these obvious potential benefits, only a fraction of the thousands of consumer debtors in serious financial trouble make use of the Wage Earner Plan. (Somewhere around 20,000 people filed under Chapter XIII in 1974, a figure some authorities believe is ten times too low.) It is widely used in only a few states, namely Alabama and North Carolina where about 75% of personal bankruptcy cases are filed under Chapter XIII; it is uncommon in

most (e.g., Michigan which had 400 cases in 1973), and in half a dozen states this alternative is all but unknown. The main reason for its infrequent use lies in the attitude of debtors' attorneys and bankruptcy referees (federal officials who preside over bankruptcy cases).

> One reason so few people use the plan is that so few know about it. And one reason for that is that many of the officials who are supposed to pursue and administer the law are instead ignoring and even hiding it. The government doesn't publicize it for fear big creditors will grumble, the federal bankruptcy judges don't push it because it is a complicated process often involving lengthy demands on their time, and lawyers often fail to inform clients of the alternative because it offers minimal attorney compensation.
>
> In some state (such as New Hampshire) cases for the Wage Earner Plan are rare as fingers on a worm. Many lawyers actually direct eligibles away from it by lying. They claim it will destroy a client's credit rating forever. Other states, Maryland and Indiana to name two, discourage Chapter 13 participation by insisting that courts reduce applicants into poverty (by, say, taking their homes) before allowing a debt-payment plan. Maine is an exception; bankruptcy judges there believe the best way to protect debtors and creditors is to catch the trouble early. People are encouraged to bring their money woes to the courts early, creditors are receiving full balance (if tardily) and some 90% of those on the Wage Earner Plan are discharging their debts with honor. In Maine Chapter 13 is presented as a responsible plan and it disassociates bankruptcy from hoary stigma. When it works right it affords a rare opportunity for people, capitalism and government to work together in concert.[81]

This, a columnist's view, is supported by Brookings Institution findings: they report that, with the exception of a few states such as Maine where referees encourage Chapter XIII, "we found little interest in it from bench and bar." Ideally, a debtor with his attorney should choose between bankruptcy and the wage earner alternative after determining which is more appropriate for his situation, but the debtor's choice is more often biased by the

attorney's personal opinion. He may be persuaded to take straight bankruptcy if the lawyer believes that it is better for the debtor to get cleared up and out, or if he views Chapter XIII as depriving citizens of their legal right to discharge; on the other hand he may be discouraged from bankruptcy if his lawyer feels that Chapter XIII is the morally correct way out.

> The attorney's choice is also influenced by knowledge of a referee's basic attitude toward Chapter XIII. If the referee strongly opposes it he can cause or permit various obstacles to arise. Some lawyers told us of being handicapped by clerical red tape, inordinate delays, and excessive compensation to the Chapter XIII. Others said they did not file Chapter XIII cases because referees would allow such brief time periods for repayment that there would be little improvement in their clients' situation. At the opposite extreme are referees so partial to Chapter XIII that they encourage this choice even when a debtor is in such straits that an attempted repayment plan is unlikely to succeed.[82]

These Brookings Institution findings are based on interviews with attorneys who are experts in bankruptcy and are thus knowledgeable in this area; more often, debtors considering bankruptcy are represented by lawyers who know little about Chapter XIII (Sullivan claims that quite often attorneys are not even aware that the statute exists).[83] Whether from lack of knowledge or personal disinclination to use it, there can be little doubt that for the most part, debtors (and their lawyers) fail to make use of Chapter XIII as an alternative to bankruptcy; this is borne out by the fact that in 40 of the states, 500 or fewer cases were filed in 1973. (I talked with 40-odd Michigan debtors in researching this study and none of them had heard of it.) In sum, it can safely be said that Chapter XIII does not represent a true alternative to

bankruptcy for most distressed debtors, even in those cases where the income and debt load are such that repayment would be feasible.

Another possibility for help-seeking debtors may be found in the services of debt-pooling and credit-counseling agencies.[84] The function of these organizations is roughly similar to that of the Wage Earner Plan in that they enable the debtor to pay debts out of future income at a rate which allows him to retain a sufficient amount of his earnings to maintain a decent standard of living. As with the Chapter XIII arrangement, the debtor supplies the agency with an itemization of his creditors and amounts owed and works with the agency counselor to compile an accurate listing of his living expenses; the counselor then evolves a budget for the debtor and contacts each creditor advising him of the rehabilitation plan and the amount he is to receive in regular partial payments on his account. Each payday an agreed-upon portion of the debtor's earnings is turned over to the agency and it disburses this money to the creditors. Since the budgeting and supervision provided debtors by counseling services are effective in producing repayment that might not otherwise have been made, many creditors are generally willing to go along with such arrangements, but there is no guarantee that all of them will do so. This is the important difference between agency assistance and Chapter XIII--agencies have no legal power with which to protect their clients from collection pressures or to stop creditors from taking legal actions against their property. For some agency clients a major purpose of help-seeking may be defeated by this shortcoming, since the help

financially troubled, willing-to-pay debtors need most is in getting creditors to cease harassment by persuading them to accept pro rata payments at periodic intervals and allow an extended period for repayment. As I discovered in my interviews with agency clients, many are not aware that it is very possible for a creditor to proceed with legal action or issue garnishment orders against them; a creditor may drop out of the budget plan at any time and try to collect the debt directly, leaving other creditors accepting piecemeal payments. Evidence that this indeed occurs is found in remarks of the head of CCC, Inc., in his "open letter to the credit community," which appeared recently in the CCC Newsletter:

> As more and more consumers are unable to meet their financial obligations as they come due because of the present depressed economy, creditor pressure is increasing. There has been a noticeable difference in creditor cooperation on our client programs in the past couple of months. Some creditors are using the "get there first" method of collecting outstanding debts, and this probably works effectively with some debtors. However, families do not normally resort to outside help in resolving their debt problems until their financial situation is completely unmanageable. Therefore, this method of "getting there first and putting on the pressure" is not effective with clients who are in a debt repayment program with our service. In fact, it destroys an otherwise workable program and may cause the debtor to file bankruptcy because he has no other alternative.

On the plus side, counseling agency services represent an alternative for a large segment of debtors to whom the Wage Earner Plan is, for various reasons, not available or appropriate. People whose incomes derive from private business or professions and those whose earnings are erratic or very low in proportion to their debts are not eligible for Chapter XIII; debtors who realize a need for help in organizing and controlling their spending and

debt-burdened wage earners who prefer not to deal with courts and lawyers (or can't accept the costs of these services) would all be candidates for help from counseling organizations. In view of the diverse needs of troubled debtors, credit counseling agencies' services have been structured accordingly and, in effect, constitute three separate phases or types of activity: (1) counseling only, in which the debtor retains responsibility for managing his financial affairs including possible discussion with creditors regarding payment adjustments; (2) budget counseling with payment adjustment, a three-party arrangement whereby the agency negotiates with creditors and handles the pro rata distribution of debtors' funds following a review of his financial condition and preparation of a budget. A third aspect of counseling agents' activity might be viewed as an extension of the sorting and filtering processes that characterize the debt collection career--the initial screening (known as the "work-up interview") results in rejection of a number of debtors who cannot be helped because they lack income or have insufficient income in relation to debts; in addition, some applicants decline to accept agency help after learning how it works and what sacrifices it will require of them, and others drop out or are eliminated from the program before its completion for failure to continue their payments. According to findings of the Family Service study (Hall, 1968), the agency rejectee group is substantial, ranging from 15 to 50% of the applicants.

To get some idea of how much value agency assistance has for debtors in general, I have evolved estimates based on information made public by CCC, Inc., of Michigan for the year 1975, which suggest the number and percentage of persons involved in each aspect of agency activity. Statewide, the CCC reports a total of 5,683 clients interviewed (including budget analysis and counseling) and 3,677 clients set up in a debt-management program. According to Hall's study, about 10% of agency applicants use the counseling-only service and a third to a half of the number initiating prorated payment plans discontinue them before completion; a spokesman for the Meridian CCC office claims that about 35% of those starting repayment programs "have to be judged unsuccessful," which is consistent with Hall's estimate. ("Some, the counselor admits, have slipped in the door just to dodge creditors a bit longer.")[85] With these estimated percentages we might expect the disposition of Michigan applicant cases to have been distributed in somewhat the following manner:

Total number of applicants reported by CCC for 1975:		5,683
Number of clients in debt management programs:	3,677	
Clients discontinuing repayment plan (estimated 1/3):		1,213 (21% of total)
Clients successfully completing plan:		2,464 (43% of total)
Applicants using counseling-only (Hall's 10% estimate):		568
Number assumed to have been rejected (remaining 25+%)		1,438
	100% =	5,683

Assuming that these estimates are fairly close to the true picture, it appears that, first, one out of ten agency applicant debtors either is unwilling to accept the restrictions required by an adjustment plan or else needed only a "pep talk" or advice, perhaps the recommendation that they contact creditors and work out an extension agreement. If the debtors in question are under severe collection pressure austerity would seem the lesser of evils, thus it is quite possible that most counseling-only clients are not in extremely serious debt trouble; it also suggests that few debtors seek help before their situation has become desperate (consistent with what we have already observed, that over-indebted consumers typically fail to "see it coming" before it is too late). A second conclusion we might draw from these figures is that, for many debtors, there is actually no alternative to bankruptcy; it represents the only option which does not require paying and for debtors with inadequate or nonexistent income it may simply be the only way out. (It might be added that an agency counselor's own assessment of the situation as "unworkable" lends great credibility to a debtor's claim that he cannot pay for, as we shall see, agencies are dedicated to prevention of bankruptcy.)

Further insight about agency assistance as an alternative to bankruptcy can be gained from the estimates of debtors in debt-management programs; about two-thirds of all applicants undertake a debt-repayment plan under counselors' supervision, but less than half of all who show up at the agency requesting help carry such plans to completion. We can surmise that some of these debtors

may lack one or more of the qualifications needed to enable them to act on their counselor's advice--adequate income to make repayment feasible, the personal characteristics necessary for carrying out agency directives (e.g., requisite social and intellectual skills, a strong desire to repay and reluctance to pursue less acceptable alternatives, a capacity for tolerating budgetary restrictions); it is also possible that the plans developed for them may not have been feasible in view of their debt load in relation to their income. Dropping out of a plan is related to rejections of applications for help; Hall, in interviews with 65 families who had tried counseling services, reports that "fifteen had received a varying degree of service, ranging from one interview (in which they found the proposed plan unacceptable) to a period of trial of a payment adjustment plan which they found untenable." In connection with rejection of client applications he then says,

> Figures of the agencies are inadequate since many do not keep accurate count of those who are not accepted. However the answers to the questionnaire (submitted to 32 agencies) showed that a sizeable number of applicants are "not accepted" and the usual reasons given were: "debt too great, no realistic answer;" "family unwilling to accept the plan," which meant unwillingness to accept the proposed payment plan.[86]

In fairness, it must be said that for many people plagued with debt problems and the pressures of collectors, agencies represent an invaluable source of aid; Hall's interviews with counselees indicated that, although they had not developed new money management skills, the experience had produced a marked improvement in the finances of many of the families and most spoke favorably or highly of the service. (My interviews with agency clients generally

confirm this.) These, however, are the views of "successful" clients and there remains some question as to the merit of agency service for debtors midway between successful rehabilitation and those the counselors regard as "too far gone"--in the gray area where neither bankruptcy nor a debt-repayment plan is clearly contraindicated. There is evidence to suggest that many of these borderline cases are prescribed the debt-management service of counseling agencies--which results in repayment of creditors--and counselors lend support and guidance to keep them on the plan and, not incidentally, out of bankruptcy court.

> It appears to be practically universal that the possible use of bankruptcy is not discussed even though the credit counseling service counselor may believe it to be the only possible solution. The absence of any factual discussion of bankruptcy is heavily related to the desire to avoid the appearance of promoting bankruptcy with the resultant potential criticism of the service from the creditors.[87]

The proliferation of community-supported counseling agencies since the 1950's (concomitant with the expansion of consumer credit and rising bankruptcy rates) is no accidental coincidence. Their development has been aided and encouraged by social workers, labor unions, and the like, but the financial support essential to their founding and functioning comes primarily from the business sector; with few exceptions, credit granters are the major source of income for nonprofit counseling organizations--the largest contributors are consumer finance companies, banks, and retailers, with support also coming from credit unions and some medical or hospital sources and utilities.[88] As originally conceived, community-supported counseling services were to be helping organizations in a broader

sense than merely an aid in debt repayment; i.e., they were to provide various functions including the guidance-only needed by some debtors (ideally those who discovered or were referred to agencies before their trouble had grown too serious), the debt-management service for those whose situation had deteriorated or who lacked self-discipline, and education for all clients and the general public in the wise use of credit and good money management. Experience has shown, however, that the bulk of agency staff time goes to administration and guidance in connection with repayment plans, the rest is used in counseling-only, and almost none to educational efforts. "This emphasis on payment plans suggests that these offices are more collection agencies than public service organizations."[89]

Obviously the motivations of supporting creditors are not altruistic. Although counseling services benefit the debtor by giving him the help he so desperately needs, "the reason that creditors hail debt counseling is no mystery: they receive the money that is due them without having to institute legal action. And the fact that billions of dollars are washed down the drain every year through bankruptcy is a major factor. In most cases where counseling agencies have been established it is the finance companies, local retailers and banks--the credit granters--who have been the prime movers."[90] Within the agency, creditors' support has the expected effect:

> Within the credit counseling services, there is confusion about the role the agency and the counselors have in assisting people with their problems. Who is the "client"

> of the agency--the creditor or the debtor? Does the counselor primarily represent the creditor community which largely supports his agency and usually pays his salary? Or is he similar to a counselor-at-law or a social worker who considers the person who comes to him as his "client," and sees his role as an advocate of the person in trouble?
>
> There is evidence that the major portion of the time of the counselors is devoted to one problem: developing a payment adjustment plan for the family. The number of rejections, the number of persons who "drop out" from these payment adjustment programs as well as the statistics of services given, are the evidence of this one absorbing direction of effort.[91]

What this concept of the role of the agency counselor implies for marginal debtors committed to debt-repayment plans bears some consideration. It would hardly be reasonable to expect that creditors would recommend agency help to their default debtors before every other means of collecting had been tried--until counseling had become ipso facto _the_ alternative to bankruptcy. At best, early referral would produce pro rata payments to all creditors but there is a good chance that one might seize the debtor's assets, leaving the referrer out in the cold. Late referral is more realistic and, although not conducive to the success of either debtors or agency programs, not sending debtors for help before they are hopelessly entangled is the norm. It goes without saying that all interests on the "creditors' side" of the picture discourage bankruptcy by every means possible, most of all by emphasizing its attached stigma of shame and by presenting it to the public not as a means to a fresh start but as personal and moral failure. Thus the near-hopeless debtor (who might well be a "legitimate" candidate for bankruptcy) is typically deterred from this option and shunted to the agency for "help."

Once there, the counselor who appraises his situation will never mention bankruptcy, but if the debtor's financial condition is utterly hopeless he may be rejected as a client. The likely outcome, as we have seen, is that the applicant will be put on a repayment plan if there is any possibility at all that he can make some payments on his debts.

Hall's analysis gives us some insight on how this situation works for the counselee: he notes first that the most frequent cause of debt problems among agency clients is "poor judgment" compounded by misfortunes resulting in reduction or loss of wages. (The term "poor judgment" applies to the poor shopper, the compulsive buyer and one with low sales resistance; it also refers to overloading of the buyer by high-pressure salesmen.) Although a large debt load is the immediate problem, a reduction in income, due to a variety of causes, is typically a large part of its being a problem--the problem which the applicant lays before the counselor. In order for clients to make payments on past debt their incomes must be budgeted to cover both the payment plan and daily living costs; the living scale must of course be adjusted to accommodate the debt payments, but with marginal debtors (whose difficulties were partly caused by a shortage of income in the first place), there may be little room for the necessary "adjustment." Hall found that "payment adjustment plans commonly called for between 30 and 60 percent of family income to be paid on debts."[92] Most of the families he studied were expected to live for a period of 12 to 36 months on amounts inadequate to meet their

basic necessary family expenses; such severe restrictions would, if carried out, result in inadequate diets, omission of health care, and damage to family patterns (e.g., participation in educational, religious, or community activities). He notes, however, that some agencies discontinue their service if clients cannot maintain sizable payments of income on debts and he reports that "many of the interviewed families who dropped out of a payment adjustment plan before its completion said they had discontinued because they could not endure the cutback in living standards which was required."[93]

In sum, the debtor who opts for the role of "help-seeker" and looks to debt-counseling agencies for a solution to his dilemma may or may not find this an alternative to bankruptcy; for those who do, it means essentially that they remain in the collection career and potentially subject to all the pressures their creditors can bring to bear. The ones unable to pay simply do not qualify for agency counseling; since help-seeking is no alternative for them, their only exit lies in choosing the stigmatizing role of bankrupt. That this in fact is what happens in such cases as we have described, is seen in the quotation below. This is an excerpt from the conclusion to a paper reviewing several bankruptcy studies for the purpose of pointing up what information they provide about the "reasons for the choice of bankruptcy over other alternatives." The author first notes that in all these studies bankrupts were found to be young, married blue-collar workers; money owed to commercial lenders made up most of their total

liabilities but debts to retail credit granters and medical services were also a significant part of their debt load. While large medical bills and declines in income that interfered with debt-carrying capacities were a partial factor, "the financial distress of the bankrupts appears to have been primarily the result of debt loads which had grown to unmanageable size." As for the reasons such consumer debtors end up as bankrupts,

> Several factors apparently motivated persons to choose bankruptcy as a solution to their financial problems. Bankruptcy appears to have been more attractive than other alternatives because it affords protection from wage garnishment and lawsuits and because many of the bankrupts had debt loads so large that they could not have been repaid in any reasonable length of time. The available evidence suggests that the desire to escape debts considered unfair and the desire to defraud creditors were not important factors in motivating the choice of bankruptcy.[94]

In a more recent study, Sylvia Lane (an economist) performed a comparative analysis of the characteristics of three groups of submarginal credit risks--bankrupts, petitioners under Chapter XIII, and debt counselees--and her findings shed additional light on the issue we have been discussing here, how defaulters come to be sorted into "help seekers" vs. bankrupts. In this report Professor Lane confirms the commonly held prototype for the bankrupt as that of a young, married head of family with a blue-collar job, but she finds that it fits the petitioners and counselees as well. As might be expected, Chapter XIII debtors had the highest job stability and the highest median income, but all groups had similar incomes--between $400 and $500 a month, above the poverty level but below the average for the area in which they lived. As for

debts, she found that the specific types of debt most frequently reported by all three groups were those owed to retailers, consumer finance companies, and medical services.[95] Her most interesting findings have to do with relative values of these subjects' debts, assets, and income. In terms of total debt as a percentage of gross annual income, a gradient appeared across the groups as she expected it would: bankrupts were highest, petitioners (under Chapter XIII) were next, and counselees lowest. However, a clearer picture of their actual debt condition emerged when ratios based on short-term debt (excluding mortgage) were computed. These ratios (adjusted for tax obligations) indicated that "the bankrupts would require 6 years to repay their debt, which may be why the situation appears to be hopeless. The petitioners and the counselees would on the average require 3-1/3 and 3-1/2 years, respectively, to repay and this may be why they attempt to repay." Further understanding about the debt conditions of bankrupts vs. counselees came to light with the comparison of the debt-to-asset ratios (debt as a percentage of total assets). These ratios (493% for the bankrupts, 692% for counselees) illustrated the technical insolvency of the cases under study. Since 100% denotes solvency, the counselees were furthest from this condition (where debts are exceeded by ownership of assets, liquid or property such as household goods, car, and real estate) but, as Professor Lane points out, "the potential value of earning power is not included among the assets, and for households this is the most important asset of all."

In other words, the availability of current income for debt repayment, rather than property ownership, counts heavily in making the decision among alternatives. In concluding her study, Professor Lane writes,

> Judging by the debt to income ratios, the sample sets [representing the three debtor alternatives] have apparently been classified, or have classified themselves accurately. Those who on the average were least able to pay chose bankruptcy. Those for whom the situation was not as hopeless financially chose to repay."[96]

Thus, for some consumer debtors (about 200,000 each year), the enforcement career which began with the acceptance of their credit application has its end in bankruptcy and all the others (save those who escape) find exit only by paying up.

Conclusion

We have attempted, in this first phase of study, to depict the structural side of the credit world occupied by the organizations that lend and collect and represent sources of help to defaulters. In the next chapter we turn to the consumer debtors who are participants in the activities of credit-debt organizations to examine this world as it appears to them. There we will try to understand how it feels to be a consumer debtor who, in carrying out what seems to him an ordinary daily consumer's life, has slipped into a problem that comes to affect virtually every aspect of his existence. We will see how he faces the dilemma with which he is presented, how he tries to resolve it, and what the experience may do to him. In considering the changing situations of consumer debtors traversing the route from credit applicant to

possible bankruptcy we will try to keep the whole picture before us, remembering the perspectives of the total society and the organizations that function to make the consumer credit system work. Since we are ending this, the structural-view portion of study, by looking at bankruptcy as the eventual outcome of indebtedness for many American consumers, it is fitting to conclude this phase with a thought on how bankruptcy itself fits into the bigger picture:

> Bankruptcy is bad by definition--a negative concept connoting failure and broken agreements. Bankruptcy is bad for the debtor: he loses property (if he has any nonexempt property); he may feel stigmatized; and he has difficulty obtaining low-cost credit. It is bad for the creditor, who loses money he presumably expected to collect. It is bad for governments and taxpayers: losses are written off and potential revenues unrealized.
>
> But the results of bankruptcy are not necessarily all bad for all creditors and debtors. Creditors have anticipated bad-debt losses in their pricing, and they receive the tax advantages of write-offs. Debtors get rid of their unsecured debts--unless they revive them--and are occasionally rehabilitated under the provisions of Chapter XIII.
>
> On balance, however, the high tide of bankruptcies has properly been viewed as unfortunate. The losses of property and income are aggravated by costs of collection efforts and later of bankruptcy proceedings. The social and emotional costs are also significant: frustration, fear, mistrust, anger, broken relationships.
>
> Yet we have seen that bankruptcy is inevitable and necessary. The process ends a deteriorating but unresolved situation so that those involved can make a fresh start. As long as there is a large volume of credit, some credit will go bad and formal remedies will have to be sought. Any nation whose trade is based on credit, even in part, must provide for legal recognition of insolvency.[97]

FOOTNOTES

[1]Robert Cole, 1976, p. 33. The comment is attributed to Ernst Dauer who is a consulting economist and visiting professor of finance at Loyola University at Chicago.

[2]David Stanley and Marjorie Girth, 1971, pp. 39-40. (Emphasis added.)

[3]George Belden, 1974, p. 16.

[4]Reavis Cox, 1950, pp. 194-95.

[5]Lewis Mandell et al., 1973, pp. 5-6.

[6]George Katona, Lewis Mandell, and Jay Schmiedeskamp, 1971, pp. 125-26. These data do not reflect the inflationary conditions prevailing after 1970; the ratio of instalment debt to disposable income for the average family rose to 17% in 1973, although 20% was still used as a maximum in the rule of thumb for debt safety.

[7]Deborah Rankin, "Americans Failing to Pay Their Debts," Lansing State Journal, April 21, 1974, p. D-14.

[8]"Do you owe too much?" Changing Times, June 1974, pp. 6-7. Gwen Bymers' vulnerability criteria are used in a pamphlet entitled "Your Credit Health," prepared by Credit Counseling Centers, Inc., for distribution to their clients. Some of the information in this section is taken from that pamphlet.

[9]Sylvia Porter, "How Much Debt Is Too Much?" Lansing State Journal, September 13, 1972, p. C-16. Miss Porter points out that with weekly take-home pay of $200 ($9,600 a year), the safe limit for instalment debt would be about $200; this is not including mortgage payments or utility and medical bills.

[10]"Do you owe too much?" Changing Times, June 1974, p. 6.

[11]Richard Stinson, 1974, p. 29.

[12]John Moorehead (Christian Science Monitor), "Credit Card Computer Gets Nasty," Lansing State Journal, January 22, 1975, p. D-6.

[13]Lee Wedemeyer, "Going for Broke," Lansing State Journal, July 2, 1972, p. C-1.

[14]Wallace P. Mors, 1972, pp. 134-35.

[15]Sterling Speake (ICCA Manual), undated, p. 73.

[16]Ibid., p. 104. Bad debt losses vary among credit granters; in 1966, the latest year for which figures are available, bad debts averaged about .23% of sales for corporate retailers and about .40% of sales for service establishments. Delinquencies on bank loans to consumers ranged from .97 to 2.19% of loans outstanding in September 1967, across five types of loans. The latest report of the American Bankers Association indicates that for eight types of loans outstanding in December 1973 the delinquency ratio was 2.53, the highest level reached since a 2.19 was recorded in 1972.

[17]Robert Cole and Robert Hancock, 1960, p. 326.

[18]Sterling Speake (ICCA Manual), undated, p. 72. I have underlined Speake's references to debtor types. This basic typology appears in most writings on debt problems and credit management. Speake identifies prompt payers, deliberate evaders, and slow payers; the latter include the unfortunate debtor (whom we described earlier as having been pushed over the line to default by an unexpected crisis) and the indifferent or irresponsible debtor. These, together with evaders (often referred to as "deadbeats"), comprise the three types of defaulters of concern to debt enforcers. The quotation from Cole which appears below suggests a similar classification system. Mors speaks of certain types of bad debts as "procrastinatory write-offs" and identifies them as follows: "Internally oriented write-offs result largely from debtors who do not have the requisite capacity or temperament to manage their debts or who lack motivation to pay whether from ineptitude, indifference or hostility. Externally oriented write-offs represent debts which debtors are willing to pay in the main but cannot do so because of too great a deterioration in their financial position resulting from the occurrence of unforseen events after the debts were incurred." Wallace Mors, 1972, pp. 121-22.

Rock also describes a typology generated by the English debt enforcement process which is essentially the same one--the unfortunate, the feckless, and the professional: "Collectors operate with a threefold classification of defaulters which is linked to two features of enforcement: the need to predict a defaulter's intentions and the particular information that a process involving variable amounts of time and effort generates. . . . [The career] must be both complicated and simple. It must be complicated enough to cater for a variety of types of default and response. It must differentiate between the feckless, the unfortunate and the professional. Having established a means of differentiation, it must further incorporate appropriate strategies for each type. Yet it must be simple enough to proceed smoothly, cheaply, rapidly and with little attention." Paul Rock, 1973, p. 294.

[19]Robert Cole, 1976, pp. 370-71.

[20]Paul Rock, 1973, p. 92.

[21]Rock's descriptive analysis of the English debt collection system is contained in his paper, "Observations on Debt Collection" (1968) and his book, Making People Pay (1973). These works are reviewed in the introduction to the present study. It is important to understand that I do not regard my investigation as an attempt to replicate Rock's findings but rather to build upon them. Rock concentrated on the debt collection process, characterizing it as a social control system designed to manage the unique problem of debt default; his descriptions of debt collection processes are presented as evidence for his argument that this social control system shapes and defines and imposes a career-like structure on indebtedness. I am describing debt enforcement only insofar as is necessary in order to establish a firm link between this investigation and that of Rock because my focus is not on the collection process per se but on the consumer debtor who is exposed to it. I regard his work as a useful foundation for this analysis of debtors' self-concepts; I see this not as a replicating study but as contributing to a line of research in which the findings of previous work serve as grounds for new and different areas of exploration.

[22]Paul Rock, 1973, p. 26.

[23]Ibid., p. 48.

[24]John Whalen, 1976, p. 109.

[25]Sterling Speake (ICCA Manual), undated, p. 49.

[26]Earnings to be made on lending is also a strong influence in credit policy making; debt merchandisers have this in mind with liberal lending standards. John Whalen writes, "In the pure, clean fantasy world of credit theory the amount of credit made available and to whom is determined by perceived risk. Criteria determining the applicant's place on the risk scale include income, residential and occupational stability, debt load and credit history. In the real world the risk scale becomes warped. Prudent credit-granting policies fall victim to other considerations. Interest or finance charge income is perhaps the most powerful modifier.

Retailers who run revolving charge programs can accept applications from the lower middle of the risk scale because markup on merchandise plus income generated by an 18% finance charge will more than offset anticipated bad debt losses. Retailers who finance on instalment contracts or sell their paper to finance companies accept even worse risks because of 21.6 to 27% annual interest. Small loan companies can afford to deal with people barely clinging to the last rung of the risk ladder because they charge up to 30% on the money they lend." John Whalen, 1976, pp. 108-109.

[27]These remarks are recorded in my notes on a lecture presented by Sterling Speake at a consumer credit course I attended on May 13, 1974. The course is sponsored by the International Consumer Credit Association and made available in various communities, usually under the co-sponsorship of the local credit bureau. They are attended by persons engaged in credit and collections departments of credit-granting retail firms and financial institutions.

[28]From remarks by ICCA lecturer Sterling Speake, May 13, 1974.

[29]Robert Cole, 1976, p. 247.

[30]Ibid., p. 248.

[31]Cole observes that the meaning of "collection" is variously interpreted; it may refer to the efforts which start when the customer is reminded of his indebtedness, thus defining the routine "bill" stating that the amount will be due on such a date as part of "collection." Cole prefers to adopt the convention of applying the term to efforts made _after_ the agreed-upon credit period has expired. See Robert Cole, 1976, p. 364. (The five major functions of the collection operation which are identified in this paragraph are also taken from Cole, p. 384.)

A similar ambiguity exists in the use of the term "enforcement." Because the general account control operations of credit granters include procedures for picking out past-due accounts, I regard this initial identification of an account as delinquent as the beginning of the collection system. I have shown how the collection system, which begins with credit granters and moves to the hands of agency collectors, is a system of social control, i.e., a system for "enforcement" of debt. The term may be generally equated with "collection" although I extend it to include the earliest of collection steps, those which identify an account as past due as part of the creditor's routine account-handling system.

[32]Paul Rock, 1973, p. 65. I have added underlines to point up the three characterizing aspects of an enforcement career.

[33]Ibid., pp. 70-71.

[34]Paul Rock, 1968, p. 178.

[35]This outline is adapted from Cole. See Table 16-1 in Robert Cole, 1976, p. 373.

[36]Paul Rock, 1973, p. 72. Rock goes on to say that enforcers also use time intervals as measures of deviance: "A debtor who has not paid for three months is 'obviously' more deviant than one who has missed two payments. A debtor's deviance thus develops in a

manner which is highly organized and calculable." This, of course, is the idea behind our description of the (American) debt collection system and one which will be developed in the chapter to follow.

[37]Bruce Goldman et al., 1974, p. 49. "Account aging" refers to the standard business practice of reviewing periodically (by various methods) the status of accounts receivable. Age analysis, one method, is something like an inventory of all money owing; it reveals whether the creditor's current collection rate is satisfactory and also highlights particular accounts that are due for collection treatment or which should be eliminated from the creditor's collection routine.

[38]Rock suggests that the idea of process is mechanically written into the sequence of enforcement measurings and he cites Roth's argument that "long stretches of time may be made more 'psychologically manageable' by being broken up into smaller segments. When the markers used to divide periods of time into segments are also signposts of progress in a given direction, we have the foundation of a career timetable." Julius Roth, Timetables, Indianapolis: Bobbs-Merrill, 1963, p. 115, in Paul Rock, 1973, p. 71.

[39]Robert Cole, 1976, p. 372.

[40]The lecturer at the ICCA Credit Course displayed a variety of available collection devices to credit personnel attending the class. He emphasized that the color of such devices, apart from the messages used at each stage, had important effect; he also advised his class not to paste stickers flat on the statement--"so he can remove it, and he will. This allows the debtor to save face."

The idea of early stage stickers as "nudging" devices is taken from Belden. He identifies the steps or stages in a collection system as the Nudge, the Appeal, the Push, and the Squeeze; I have adopted these terms in describing collection stages in this section. See George Belden, 1974, pp. 22-26.

[41]Robert Cole, 1976, p. 372.

[42]It should be noted that while I do not raise this as an issue in the present study, the credit world is not without credit granters who use deceptive and exploitative practices in transactions with consumer debtors. Caplovitz' investigation into the problems of (and reasons behind) debt default provides a general understanding of how such creditors operate. David Caplovitz, 1974. (See especially pp. 27-46.)

[43]Paul Rock, 1973, p. 268.

[44]Ibid., p. 58.

[45]Sterling Speake (ICCA Manual), undated, p. 92.

[46]Excerpted from ICCA Credit Course notes. See footnote 27.

[47]Sidney Sherwin, 1974, p. 79.

[48]"In too many cases the car seized is not sold at market value. A reputable bank will see that it is sold for the best price at a public auction, but many repossessors sell cars back to the original dealer at a rigged 'bargain' price. One study cited by the National Commission on Consumer Finance which held hearings on the problem in 1970, found that repossessed cars were sold back to dealers at an average of only 51% of their actual value." George Belden, 1974, p. 108.

For a discussion of shady repossession and deficiency judgment practices, see David Caplovitz, 1974, pp. 183-89 and 295-97.

[49]David Garino, "Getting Credit Cards Back From Deadbeats Is a Booming Business," Wall Street Journal, March 24, 1975, p. 1.

[50]Physicians and Dentists Credit and Collection Manual, St. Louis: National Retail Credit Association, 1953, p. 26.

[51]There are about 5,000 collection agencies in the U.S. and there are considerable differences among them--in size, organizational structure, and in the methods and quality of their work. There are some very large collectors but the small organization is the norm; the member agencies of the American Collectors Association, for example, operate with an average staff of 6.3 persons and they accept an average of 670 new accounts per month, totaling some $48,000. Agencies vary in their practices: some organizations employ marginal, often illegal, practices regularly, although most conform to varying degrees with the ethical practices guidelines set by trade associations and the FTC. Agency procedures differ also in terms of the differences in state laws; in states where measures such as garnishment are available, such steps are commonly incorporated into the standard collection routine. Agencies which operate as collection service departments have more direct access to information about debtors than unaffiliated collecting firms; it can be assumed that collectors with legal collection steps and more information at their disposal rely less on continued dunning and threatening than do those who lack these resources.

Despite these variations, the strategies and procedures of collection agencies can be described in a general way. In this section I am attempting to portray the functioning of a "non-exceptional" organization, i.e., one which uses procedures which might be used by most American collecting firms. It assumes a state

in which legal measures can be used, an ethical manner of doing business, and an organizational size and structure which is typical of a great many agencies.

[52]The term "independent" refers here to collection agencies which operate as separate business enterprises versus the personnel or departments which carry out collecting activities as part of the original creditor's organizational structure.

[53]George Belden, 1974, p. 17.

[54]Bruce Goldman et al., 1974, p. 134.

[55]A debtor who cannot be located by the creditor is, in collectors' parlance, a "skip." In some cases failure to supply a forwarding address is unintentional, but it is not uncommon for debtors to relocate (or change their name) to escape paying debts; a whole branch of the collection business, known as "skip tracing," is devoted to finding such persons. The credit industry has developed techniques of skip tracing which are described in detail in the instructional materials used in the training of collectors.

[56]George Belden, 1974, p. 17.

[57]Paul Rock, 1973, p. 168.

[58]An incident in my work experience provides an illustration: among my accounts was a very large indebtedness upon which a judgment had been obtained but the debtor (who was "known" to veteran collectors in the office) could not be located. One day a picture of the man in question appeared in the local newspaper in connection with an accident he had suffered in his work (he had been overcome by toxic fumes while doing commercial carpet cleaning) and the story included his address and the name of his employer. I was given the clipping and told to prepare a garnishment order the next week, as soon as he was out of the hospital.

[59]Paul Rock, 1973, p. 271 and p. 85.

[60]Ibid., p. 269.

[61]Ibid., p. 271.

[62]The material which appears below and on the following page is a general representation of selected portions of the text contained in a series of manuals designed for use in training people to be effective bill collectors.

[63]Caplovitz presents an excellent account of what transpires when creditors who have exhausted extrajudicial collection methods seek a judgment in court. In his examination of the role

of the courts in the collection process, based on his analysis of debt cases in Chicago, New York, and Detroit, he finds support for his claim that courts operate as collection agencies for creditors irrespective of the debtor-defendants' defenses. See David Caplovitz, 1974, pp. 191-224.

[64]Attachment and execution are remedies granted by state law that enable creditors (or the collection service acting as agent) to tie up or seize judgment debtors' property. With attachment of property, the creditor does not actually take possession but arranges for it to be held as security against payment of the debt. Execution is the procedure by which property is actually seized and liquidated by public sale to satisfy a judgment. Laws governing these procedures vary widely from state to state. Attachment in most states has limited use, mostly in cases where the debtor threatens to conceal or dispose of his property with the intent to delay his creditors; execution may or may not involve attachment as a first step. In general, garnishment procedures, by which the creditor can reach funds of the debtor held by his bank or employer, is the most commonly used measure.

[65]The credit system is heavily biased toward creditors and this bias has its basis largely in the legal system which tends to be skewed in their favor. This theme is expanded in Caplovitz' study of judgment debtors. (David Caplovitz, 1974.)

While this is generally true, debtors are not altogether without means to play an active part in the psychological battle waged by enforcers. There are any number of delaying tactics and counter-measures that can be effective responses to the coercive efforts of collectors--if the debtor is not too awed or intimidated to use them (e.g., proposing a settlement, keeping assets out of reach, making small payments to placate and delay the collector). Debtors can counter collectors' threats with threats of their own as, for example, to contact the FCC or postal authorities and complain of harassment, or to claim some injustice about the debt will be reported to a consumer protection agency or taken to court; the threat of filing bankruptcy is particularly useful in discouraging collection efforts.

In the past few years an undercurrent of sympathy for debtors has been revealed in the appearance of much popular literature on the art of debtsmanship (techniques for countering or outwitting creditors) and "how to" books on bankruptcy-filing and payment-delaying strategies. Examples include George Belden's, _Strategies for the Harassed Bill Payer_; Jerome Meyers', _How to Wipe Out Your Debts and Make a Fresh Start_; Sidney Rutberg's, _Ten Cents on the Dollar_; Robert Burger and Jan Slavicek's, _The Layman's Guide to Bankruptcy_; and Bruce Goldman's, _Your Check Is in the Mail: How to Stay Legally and Profitably in Debt_.

[66]There are wide differences among state garnishment laws: in Texas, Pennsylvania, Florida, and North Carolina this measure is prohibited or severely restricted so as to discourage its use; laws of other states vary in several respects, particularly in the amount of earnings exempted and the duration of a single garnishment order. The Consumer Protection Act which became effective in 1970 reduced some of these variations by requiring all states to exempt at least 75% of the debtor's income.

Michigan is noted for having one of the harshest garnishment laws in the country, although its severity has been mitigated somewhat by the exemption requirements of the new law. In some states a garnishment order remains in effect until the debt is settled but in Michigan the order applies to only a single pay period; where several orders are needed to satisfy the creditor, the costs (almost invariably passed on to the debtor) are repeatedly incurred. In addition, multiple garnishments increase the debtor's risk of job loss. Caplovitz comments on this: "Because of the nuisance and expense that garnishment represents for employers, many will fire a worker rather than tolerate garnishment. Most employers have rules that specify the number of garnishments allowed before the employee is dismissed. The Federal Consumer Protection Act prohibits the dismissal of an employee for a single garnishment, but such a rule is difficult to enforce, and debtors subjected to multiple garnishments are not protected at all. Thus, apart from its direct role as a collection device, garnishment is a powerful threat forcing debtors to resume payments rather than risk job loss."

He goes on to note the difficulties this presents to creditors: "On balance, the Michigan law is much harsher than that of Illinois or New York but it must be judged in the light of the employer's garnishment rule. Any Michigan creditor who relies solely on garnishment to collect a large debt is apt to find that his multiple garnishments are self-defeating, for they result in the debtor's dismissal from his job." David Caplovitz, 1974, pp. 229-30.

On the whole, the severity of Michigan garnishment law makes it very effective as a threat to force debtors to reach settlements or resume payments.

[67]It should be noted that some chapters of the Bankruptcy Act deal with business bankruptcies and reorganizations; my concern with bankruptcy is limited to its application in cases of voluntary petitions for discharge of personal indebtedness.

A treatment of the procedural and legal details of bankruptcy and its social and economic ramifications obviously cannot be contained in this paper, but a large and complete literature in this area is easily available. I have included in the list of references several works dealing with the three main alternatives open to default debtors (bankruptcy, the Wage Earner Plan, and credit counseling services) and descriptions of the bankruptcy process and major studies of its use may be found among them.

[68]David Stanley and Marjorie Girth, 1971, pp. 9-10 and 12.

[69]Jules Bogen (ed.), 1965, pp. 22-19. (Emphasis in original.)

[70]Cyril Jedlicka, "What Credit Granters Can Do to Reduce Bankruptcies," Management (ACBofA publication), Credit Granter Issue, 1964, p. 6.

[71]Robert Burger and Jan Slavicek, 1971, p. 2.
There are much more extreme statements to be found in the media, this, for example, from a pulp magazine: "For as little as $65 you, too, can go into bankruptcy if your liabilities exceed your assets by $1. You'll be able to wipe out thousands of dollars in accumulated debts, keep upwards of $20,000 in personal assets, regain your peace of mind, and--here's the best part--pull off the same thing six years later. In fact, every six years. It has been your constitutional right to do so as far back as 1787; only it's the best kept secret Uncle Sam has left. The credit industry would much prefer the debtor without assets be sent to Devil's Island for rehabilitation; or at the least, be stigmatized and shamed. So, right off, shake that loser's attitude. You're not poor, you're simply broke and there's a difference in attitude between the two which truly separates the winner from the loser. So, if you're going to bomb, bomb for something worthwhile." Max Irgang, "Bankruptcy: Boom for the Busted," Capitalist Reporter, December 1973, p. 43.

[72]The discussion (in Ch. 2) of inter-industry competition for consumer credit market shares, and lenders' aggressive campaigns to broaden their customer base and include more marginal risk borrowers should have salience in the present context. The quandry to which these activities lead is nicely summarized by a popular media writer as follows: "People are going bankrupt because credit is easy to get. Credit is easy to get because we pay high interest rates. Why do we pay high interest rates? Because so many people are going bankrupt." John Whalen, 1976, p. 104.

[73]The following titles are indicative of the direction taken in these efforts: W. Mors, "An Argument Against Abridging Consumer Right of Bankruptcy"; R. Dolphin, An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy; W. Harms, Some Aspects of Business Policies and Procedures in Relation to Personal Bankruptcy in Wichita; H. Mathews, Causes of Bankruptcy.

[74]John Brosky, 1965, p. 70.

[75]Suzanne Matsen, 1967, p. 75.

[76] David Stanley and Marjorie Girth, 1971, p. 47.

[77] Ibid., p. 2.

[78] George Sullivan, 1968, p. 22. As Sullivan points out, the legal systems of most Western European nations provide that non-business debtors can be granted a discharge but only if he enters into an agreement to pay his creditors part of what he owes or to pay a reduced amount over an extended period.

The statement that bankruptcy "wipes away indebtedness" should be qualified. In the first place, certain debts are absolutely not dischargeable: all taxes, alimony and child support, debts resulting from intentional injury to person and property or through fraud. Furthermore, the bankrupt does not get rid of obligations secured by liens (i.e., when the creditor holds an interest in collateral as security). Secured creditors have the right to repossess property purchased on contract, e.g., cars, appliances, personal durables, house, but they prefer to have payment continue and debtors are usually under pressure to pay outside the bankruptcy process or to have the debt revived after bankruptcy. In addition, stores and lenders (especially those with whom the debtor wishes to have future dealings) put strong pressure on the bankrupt to reaffirm discharged debts. (Debts are reaffirmed if any amount is paid or if the debtor agrees to have the debt included in a new account.) Also, the bankruptcy lawyer typically recommends that certain debts be cleared voluntarily, e.g., credit union loans (because they survive on the good faith of their members) and back payments on a home mortgage (because the bankrupt retains the property against which they apply). By the same token, not all of a debtor's assets are taken in bankruptcy; although bankruptcy laws are established by Congress, states determine what properties may be seized and sold to satisfy creditors. State laws vary widely on the matter of exemptions but most include all or portions of earnings, personal property, items needed in a trade or occupation, certain kinds of savings, and the home. (The value of items exempted ranges from a few thousand up to $45,000.) Technically, bankruptcy does not erase debt but gives debtors a legal defense (bankruptcy discharge) which he may raise in the event that an unpaid creditor tries to bring suit after bankruptcy.

[79] In addition to these, a few states provide for a formal payoff process for wage earners (Michigan statutes allow wage earners to seek assistance and protection from municipal courts through receivership and Ohio has a similar procedure known as Wage Earners' Trusteeship). Typically, these arrangements require the debtor to send all or part of his nonexempt earnings to the court for distribution to creditors and the court gives him protection against legal actions (e.g., garnishment) by creditors. These formal means of dealing with personal insolvency provided under state law and the proceedings under Chapter XIII of the federal Bankruptcy Act have some similarities; for discussion of

these plans and comparison with Chapter XIII, see Stanley and Girth, 1971, p. 72 (Ohio trusteeship plan) and Robert Dolphin, 1965, pp. 23-25 (Michigan receivership plan). In Michigan and a few other states the instalment agreement (discussed earlier, see Chapter 2) is another way for wage-earning debtors to obtain protection from garnishment through municipal courts (see also George Sullivan, 1968, p. 164 and Robert Dolphin, 1965, p. 22).

There are also informal out of court arrangements to help debtors who want to pay in the form of state-sanctioned common-law devices such as the composition or extension agreement (described in Ch. 3 under Creditors' Collection Devices), but these remedies are most likely to be used when the debtor appears to be in temporary trouble and creditors expect to do satisfactory business with him in the future; they rarely represent viable alternatives for defaulters in or near insolvency.

[80] John Whalen, 1976, p. 219.

[81] Tom Tiede (NEA syndicated columnist), "Debtors Discover an Honorable Solution," Hendersonville (N.C.) Times-News, July 18, 1974, p. 2.

[82] David Stanley and Marjorie Girth, 1971, pp. 73-74.

[83] Sullivan discusses reasons for the use and nonuse of Chapter XIII. See George Sullivan, 1968, pp. 86-93.

[84] I use "debt pooling" to refer to agencies engaged in repayment and counseling services as a commercial business enterprise and "credit counseling" for those offering these services as a nonprofit agency. (The former go by other names as well, e.g, debt management, budget adjustment, debt liquidating, debt counseling.) Debt poolers became popular in the postwar credit boom but they fell into disrepute because of the abusive practices of unscrupulous agencies (excessive charges, misuse of clients' funds, etc.) and are now outlawed in many states and tightly controlled in those which permit them.

Credit counseling agencies receive support from community enterprises and the credit industry; they are regarded as nonprofit agencies although they do charge fees from clients other than those on welfare. (These organizations also have other names: consumer credit counseling, budget service, family debt counseling, financial counseling service, and others.) The counseling program operating in Michigan originated as a subsidiary of the Michigan Credit Union League, a state federation of credit unions; it became a separate organization in 1968 and now operates 15 offices across the state under the name Credit Counseling Centers, Inc., a nonprofit corporation. An information pamphlet distributed by CCC is reproduced in the appendix; it explains the "Why, What, and How" of this organization as presented to its clients. (For a

comprehensive study of such services in general, their organization, settings, and clients, see Perry B. Hall, 1968. This study reports an examination of eight representative programs in various parts of the United States.)

Michigan statutes permit commercial pooling agencies although they must be bonded and licensed and are carefully regulated. The functions these agencies perform with respect to rehabilitation of debtors are essentially the same as the nonprofit agencies, although they differ in their organizational structure and financial arrangements. My description of counseling and prorated payment services by specialized agencies therefore pertains to both forms of organizations, but the reader should be aware of these differences between them.

[85] Beverly Hall, "Credit Counselor Must Wear Many Hats," The State Journal, October 22, 1972, p. D-2. This article also contains the statement (made by a Meridian CCC counselor) that "At CCC clients seldom get turned down. An occasional client (5 out of the 350 handled last year) will be turned down because he's so far into trouble that the only solution is bankruptcy." We find, however, that our estimate of 25% applicant rejections is consistent with the number (15 to 50%) reported by 32 agencies in the Hall study. The information used in this section is taken from the following sources: Perry B. Hall, 1968, pp. 20 and 22; CCC, Inc., "Newsletter" (Winter) 1976; Beverly Hall, 1972.

As a matter of interest, the counseling-only service is provided free (and made prominent in advertising) by all agencies, including the commercial firms. This is because laws in most states prohibit charging for budget advising and in any case it comes too close to "practicing law without a license" to be risked.

[86] Perry B. Hall, 1968, p. 120.

[87] Ibid., p. 21. (Emphasis added.)

[88] Community-supported counseling agencies are financed in various ways: some conduct annual solicitations among local businesses and institutions; some receive payments based on the amount of funds distributed to the individual creditor through debt adjustment plans operated by the agency (creditor support derives mainly from consumer finance companies, retailers, and banks, with lesser contribution from credit unions and medical and hospital services); some exist as subsidiaries of organizations such as credit bureaus, credit union and lender associations, etc. Many agencies also receive income from debtors' fees.

The Michigan CCC program originated as a subsidiary operation of a state-wide league of credit unions; it became a separate nonprofit corporation in 1968, and now is financed through a combination of client fees (about $3.50 a week for debt management services) and "voluntary contributions" from the business community. In a recent public statement the organization announced that as of

January 1975 they were asking their financial supporters from the credit industry for an increase in the rate of contribution to 7% of amounts received on behalf of their clients. (During 1974 they had paid over $11 million to creditors on behalf of clients.)

[89]David Stanley and Marjorie Girth, 1971, p. 54.

[90]George Sullivan, 1968, pp. 137 and 186.

[91]Perry B. Hall, 1968, pp. 124-25.

[92]Ibid., p. 118.

[93]Ibid., p. 119. (Italics in original.) In my interviews with agency counselees in Meridian, I inquired about reducing their living standard and most indicated that no appreciable reduction had been required by counselors; this would be the expected response in these cases, however, since I was talking with "successful" clients who were presently in or had recently completed debt management programs.

[94]Robert O. Herrmann, 1966, p. 330.

[95]In this study retail debt was found to be the more common with Chapter XIII and bankrupt debtors while consumer finance company debt was highest with the counselee group. This would suggest that consumer debtors who end up at the counseling agency had been trying to cope with mounting debt problems by taking out consolidation loans and finance companies, especially, push them since their market share is drawn largely from people with money problems (and because it is the common practice of collection agencies to direct debtors to taking out or extending finance company loans so collection accounts can be "paid up TODAY in full"). Appealing-sounding consolidation loans are advertised as a means of reducing obligations to single "easy" monthly payments spread over a long period, but in most cases they must be secured by the borrowers' property (car, furniture and appliances, or home equity) because their credit standing is usually bad and interest rates are high. Some lenders extend interest-only secured loans and if the final balloon payment on principal cannot be met the loan has to be refinanced or the debtor loses his property. Belden advises against this as a strategy for harassed debtors: "However ethically the consolidation loan is handled by the lender, it is a dubious course of action for the harassed debtor. The consolidation loan offers an illusory sense of security and simplification. Lenders advertise energetically to promote this illusion of an easy out: Throw all your money troubles into one pot and pay your way out in painless installments. Instead of being an escape hatch, the consolidation loan often only compounds and prolongs the debtor's plight, and it blinds his imagination to other strategies he might be using to cope with his creditors." George Belden, 1974, p. 71.

[96]Sylvia Lane, 1971, pp. 19-26.

[97]David Stanley and Marjorie Girth, 1971, pp. 196-97.

CHAPTER 4

THE EXPERIENCE OF INDEBTEDNESS

Introduction

In the preceding chapters we have attempted to present an objective portrayal of the "credit world" in which most Americans take an active part through their role as consumers. We have described the essentials of the institutional system which has made personal credit widely available and outlined the process by which debt is sanctioned and enforced, showing how this complexity of structure evolved largely out of mass participation of individuals in credit and consumption activity. We now turn attention to the other side of the picture, to the credit world as perceived by individual consumer debtors.

This chapter brings the focus to the person, to the consumer who has incurred a debt burden beyond his ability to promptly discharge. The objective here is to understand the experience of being in financial trouble and to describe how the structural context of indebtedness which we have outlined appears to individuals in the role of default debtor. In order to see the operating situation from the perspective of one engaged in on-going interaction with debt enforcers and to ascertain the meaning of this experience for him, we look to expressions of subjective feelings and descriptions of episodes reported by persons actually going through an

indebtedness career. The reflections of financially troubled consumer debtors and their accounts of personal experiences as related to me in unstructured interviews are the basis of the examination contained in this chapter. These persons, each of whom had some degree of difficulty with over-indebtedness, had all chosen the "help-seeking" alternative as the means of solving their problem; at the time of the interview they were receiving guidance and using the debt-prorating services provided by credit-counseling agencies.

Of the 42 counseling agency clients interviewed, 31 were married and reported their experiences as family units, 8 identified themselves as presently divorced, and 3 were single or widowed. In each of these categories the subjects divided evenly by sex: 15 of the married and 4 of the divorced interviewees were male. Although no attempt was made to determine specific characteristics of these subjects, all of them volunteered information about themselves that suggests a considerable diversity in age, educational level, and occupation within the group. Several of these debtors were evidently quite young, since they mentioned having recently finished school, leaving the military, or having very small children; some, on the other hand, told of having had debt problems throughout many years of marriage (18 years in one case, over 20 in another) thus indicating their age to be near 40. One male and one female subject made direct reference to racial characteristics, describing themselves as black. Several subjects spoke of attending or graduating from college and most gave indications of high school education although a few had apparently not achieved that

level; two women, for example, told of marrying at age 16 and having children early in their marriage. According to the comments they made about their work, these debtors seem to represent a broad range of occupations: among the male subjects, three described themselves as life insurance agents, three related experiences as owners of small businesses (such as gas stations), several had sales or service occupations (barber, truck driver, carpet cleaner, TV repairman, door-to-door salesman), a few held white-collar jobs or did construction or shop work (plastering, sheet metal work, welding), and one was a farm laborer. Most of the male subjects (or their wives) made reference to the head of family's employment in one of the large local industries. Among the women interviewees who mentioned their own employment most had office jobs; others said they worked as a practical nurse, a retail salesperson, and as a factory worker, but most of the women interviewed seemed to regard the duties of wife and mother as their principal occupation.

In terms of their socioeconomic level and debt condition at the time of the interview, these subjects represented a broad range of financial circumstances. In some cases the debtors talked about their continuing struggle to meet their obligations with very low earnings and extended periods of unemployment, while others gave indications of having high incomes and standards of living well above the average. In about one-fifth of the interviews, some 8 to 10, the subjects revealed a long history of financial difficulty (several reported having been in and out of serious debt

trouble as many as four times in the past). An equal number felt that their situation was now under control and they expected to be free of debt (no longer in arrears) within a few months. The remarks volunteered by the debtors also suggested some variability in the nature of their personal relationships with others during the period of their financial distress, both with people involved in providing them the help they sought and with family members who shared their predicament. Most subjects spoke favorably of their counselors and the assistance they got from agencies, but there were a few cases at each extreme; some were highly dissatisfied and about to leave the agency and some revealed a heavy and often a personal dependence upon their counselor. Among married subjects, only a few spoke of receiving strong support and cooperation from their spouse during the course of the developing debt problem while several attributed the financial difficulty directly to their husband or wife. Marital problems, which they believed were related in some way to the debt problem, loomed large in the lives of many of these people; of the married subjects, five mentioned previous marriages that were fraught with debt troubles and had ended in divorce and many others described discord and disagreement with their present spouse over money matters.

While this group may resemble a cross-section of the general public of American consumers in many respects, the importance these respondents have to this study is as spokesmen for a much smaller segment of credit users, those who turn out to be troubled debtors and defaulters. Despite their apparent diversity of background,

these people are in every case ordinary consumer debtors who were unable to stay abreast of their debt obligations and found themselves confronted with a serious financial problem. Contained in the interviews with these persons are self-reported accounts of the difficult and often traumatic experiences to which they were led as a consequence of their over-indebtedness. We attempt here to construct a composite picture of the indebtedness experience as it appears to those for whom debt has become a problem, drawing upon these debtors' first-hand descriptions of events in their lives and their feelings about themselves at different stages in their progress from credit user to defaulter. Our objective is to understand how such a problem looks "from the inside" and, more importantly, to show how the debtor, the actor in this situation, interprets and gives meaning to events and constructs lines of action in response.

This chapter takes the form of an ideal-typical account of the debtor's progress from consumer credit user to defaulter. It traces the debtor's path through three distinguishable phases in the course of the indebtedness experience. The grounds for the structuring of debtors' subjective experience in this particular manner lies in research findings on the temporal patterning of abortion-seeking behavior, a form of deviance which in many ways is similar to that of the debt defaulter. "Sensitizing hypotheses" about stages in the debtor's subjective experience were developed, suggested mainly by the works of Manning (1971) and Henslin (1971),

and empirical support for the posited stages was subsequently found apparent in the interview data.[1]

In the first of the stages which we have identified in the experience of the consumer debtor, we focus on his activities and attitudes as a "normal" consumer credit user; the second phase, which begins when the consumer debtor has incurred a burdensome load of debt obligations, takes him through a period marked by struggles to cope with his problem and his difficulties with debt enforcers. The debtor enters the third phase at the time he finds it necessary to alter his course of action and turns in this case to the counseling agency for help. The two important turning points by which these phases in the debtor's experience are delineated also figure importantly as we examine the route to default. The first is identified in terms of the events or circumstances which bring the debtor to define his debt condition as a problem; the second occurs when the debtor perceives the problem as one he cannot handle and feels that he must decide upon a specific course of action that will solve his problem or bring it under control.

As we walk the "typical debtor" through these main stages and turning points, our attention will focus on three major themes: one is the debtor's conception of himself as he moves through the stages of indebtedness. We are particularly concerned with understanding the way debtors view their situation and feel about themselves as they try to cope with two particularly difficult aspects of debt trouble--being subject to the intensifying demands of their creditors and coercive sanctions of collectors, and having to

make adjustments in their spending habits and alterations in the family lifestyle as required by the counselor from whom they have sought help. Another main theme is that of debtors' expressed reasons for their inability or failure to pay their debts and their explanations for having become over-extended users of credit in the first place. One thing we will be looking for in this connection are the "motives" debtors have for the conduct which led them to trouble with debt--that is to say, we intend to examine the terms with which debtors interpret the courses of action they have taken in matters involving credit and debt. We will look as well at the notion of blame, the extent to which defaulters are able to rationalize unacceptable conduct by projecting blame for their over-indebtedness to forces outside themselves.

A third and very imporant theme has to do with debtors' responses to the collection efforts of debt enforcers. In reconstructing debtor-collector interaction episodes, this time from the debtor's side, we will concentrate on the actions debtors take in response to the sanctions brought against them by debt enforcers and the feelings these measures generate toward creditors and collectors. It is in this area that we consider the default debtor in the light of deviance and deviant labeling. Earlier we outlined the main features of the debt collection process to explicate the manner in which it functions as a system of social control whose agents identify "offenders" among consumer debtors and effectively regulate their behavior; we showed that it is from the workings of the collection process that debt default derives its career-like

structure and explained its characteristic sorting and typing procedures which are essentially the mechanism by which deviance is imposed on default. Now, looking at debtors' overt and covert responses to debt enforcement measures, we will be addressing the important issue, Does the debtor as labelee "fight back" and reject the deviant label? When the defaulter has been labeled and sanctioned as a deviant, does he construct his actions as a conforming member of society? Or does he respond as a secondary deviant, one who has accepted the social control agents' definition and applied it to himself.

This chapter is concerned with indebtedness, not as a financial condition or a social problem but as a human experience, and it will focus on the actions and feelings of persons involved in that experience. In short, we will be looking at the debtor in terms of the uniquely human process of self-interaction:

> The process of self-interaction puts the human being over against his world instead of merely in it, requires him to meet and handle his world through a defining process instead of merely responding to it, and forces him to construct his action instead of merely releasing it. This is the kind of acting organism that Mead believed man to be as a result of having a self.[2]

Protocols of interviews with debtors are the basis of this examination; it will show the consumer debtor in the process of "constructing his action" through a series of changing situations as he goes from credit user to defaulter.

The Consumer Debtor in Changing Situations

Phase 1: The Drift to Financial Trouble

The first steps of these debtors who eventually made their way into serious financial difficulty are not unlike those of any ordinary American consumer. Nearly all of the 42 persons interviewed traced the beginnings of their problem back to the time when, as young married couples, they had acquired a car and the furnishings and appliances they wanted for their home by using instalment credit. This step, taken by vast numbers of Americans, enables them to accumulate and enjoy the use of conveniences and capital goods while paying for them out of current income and, as we have seen, it proves to be a misadventure for only relatively few. Those for whom such debt commitments eventually lead to a financial crisis most often attribute the difficulty to some unexpected event which threw the family's income-payment scheme out of balance and set them on the road to default. The misfortunes most frequently mentioned by agency client debtors were those that led to diminished earnings--illness of the wage-earner, job layoffs, or the loss of a second income produced by the wife. A somewhat smaller number (several of whom reported periods of reduced income as well) identified unanticipated events, often an unexpected medical problem of a family member, that upset the debt-income balance by adding to the debt load.[3] Although a few believed that had not such an event occurred they never would have had a problem, the typical situation described by these subjects was almost exactly that described in

the previous chapter (see Consumer Debt as an Individual Problem). It is the classic story of the young, middle-income couple whose consumption behavior gradually leads them to a vulnerable financial position; when any unforeseen event puts additional strain on the family budget they quickly fall behind in their debt payments and are soon over the line to default.

The process of drift to over-indebtedness is characterized by a disinclination to act circumspectly with respect to the future and euphoria about money affairs in the present that brings debtors to overlook their growing problem, to discover their plight belatedly and often with surprise. In the general case, three factors contribute to the development of a financial crisis situation: failure to stay within a safe debt limit and proneness to commit too much of the family income to debt repayment; lack of an adequate money reserve as protection against unexpected events, and failure to adjust spending to changing conditions--reduced earnings or increased demands on the budget; low sales resistance of the consumer and encouragement by credit granters which leads him to over-buying and heavy or unwise financing. This pattern appears in all of the interviewees' descriptions of how they first came to be financially over-extended. There are several variations on the basic theme, but in virtually every case the problem is one which the debtor perceives as "creeping up on him" and one or more of these prevailing factors is always evident in the situation he describes. Most often the debtor's perilous situation culminates in the occurrence of a family crisis:

> We felt when we first got married that we'd have everything our parents did. Well, everything seemed OK, you know, and then my husband got hurt. . . .

And:

> I'd say it kind of creeps up on you. It's, ah, well you need one thing and another and you go out and get it and the next thing you know you just. . . . Well, my trouble was I got sick and was laid off a lot--but otherwise I wouldn't have had any trouble paying my bills.

Sometimes the drift to debt is a recurring process:

> Well, some of it was because of what newlyweds would need and then later it was things for the kids, and a lot of it was personal. You know how it is, you like to keep up with the Joneses--I guess that would be the best way to describe it. Of course this isn't a one-time thing with us. Another time, I had been working then, and we got used to having two incomes. Well then when I quit we were, you know, over our heads. After we sold our other place and got this one, two or three years ago, we got all caught up but . . . well, my husband wants to live over his income and now we've sort of drifted back in again.

The pattern also appears among unmarried debtors. A young single man says,

> I guess it really started when. . . . Well, first I wanted a car, you know. And they just make it so easy . . . you know, to get stuff, until you get way over your head and that's when they lay it on you. In other words, you buy something and make a down payment and then buy something else and so on, that's the way it goes. I was living with my sister at the time but--well, they made it sound so easy. I got, you know, a stereo and things for my car and stuff. . . .

And in the case of a divorced woman debtor:

> I guess I'm not a good money manager anyway but, well I was making a really good salary and then my son became ill. He had leukemia and for five years I was putting out--the medical expenses were huge and I don't know where in hell. . . . You know, it added up and added up. I just wasn't aware of it adding up. It crucified me. And I got no support from my ex-husband. My son died three years ago and I still owe $400 on his funeral.

In some cases there is only the insidious growth of a debt problem without a crisis event that brings it to a head:

> Well I guess it all started when we got married. You need so many things and you don't want to wait for them so you go out and charge them. That was our problem. I think you just kind of go overboard, you know. You don't realize that the finance charges amount to when you do it and. . . . Like when we bought our furniture, ah, three or four years ago--I'm not sure it's paid for yet, you know? And it's just, um, well you just don't realize how much you pay for that time that they're giving you. And, well, it just got so it was getting harder and harder to make the payments and have anything left over for groceries.

The following comments, by two debtors of contrasting income levels, show that credit buying can be as pernicious for those with high earnings as it is with less affluent consumers. A debtor who was apparently not well off explained:

> I think our biggest problem was when we got married neither of us was working. We lived with my in-laws for awhile but--he'd gotten a job by then--but we had a squabble with them and moved out. Well we didn't have furniture so we had to get furniture on time and TV on time and all that stuff. And after about two years I got pregnant, and it seems like that this, this pattern, it carried through until we just got more than we could handle. We need something, we'd just go get it on time. Heavens, this has been . . . well we've been married thirteen years and we're just now starting to get our head above water. It's, I don't know, I think when people get married they should have, ah, more of an idea of how their money is going to be spent and what it's going to take. You don't pay any attention because you're so young and immature it doesn't really matter.

The explanation of a once-prosperous debtor is not much different:

> Well mostly there was the pressure to buy things. It was there unconsciously, you know, to fill my needs and her [his ex-wife's] needs. I guess probably some of it was needing things when we were first married. Plus we were both working. Together we were making over $25,000 so we had plenty of money. It was no one big thing, you see, just that things kept building up. We bought a home in the country that we totally remodeled and, well my wife couldn't wait to gradually

> do things and I just kept buying things and putting them on charge, you know, to bring the house up to the way she wanted it. When we separated I ended up with the bills.

From the scenario that emerges in the protocols of these interviews we can draw some tentative conclusions about the way the consumer debtor views himself during this first stage of his indebtedness career. As a social actor in this phase, he is conducting himself as a "normal" credit-using consumer. He is optimistic about his future earning prospects and confident of his ability to honor his debt obligations. By giving him extended payment terms his creditors are demonstrating his credit-worthiness and thus enhancing his self-esteem; with credit available to him, he is cast in the role of buyer and customer and the positive regard of merchants and lenders with whom he does business makes him a man of importance. The acquisition of goods which elevate his lifestyle and show evidence of success gives him a sense of achievement. As Chinoy has pointed out, people, especially those who have unrewarding jobs offering little hope of advancement, typically look upon buying a new car or conveniences for the home as "getting ahead."[4] The drifting which leads to debt may be overlooked, as many of the interviewees have suggested, because the debtor is anxious to receive recognition and the approval of significant others; he can do this by accumulating possessions and showing that he can provide his family with "the good things of life." The desire to "keep up with the Joneses," which is so frequently mentioned, suggests this to be an important facet in the "normal" consumer debtor's self-concept. Buying consumer goods as a means of meeting

the need to measure up to others' expectations and to confirm one's view of himself as a worthy and successful person is virtually an intrinsic part of the American scene. A great many, perhaps most, Americans are moved to consumer buying for these reasons and commonly much of such buying is done on credit. It is safe to say that even though some consumer debtors eventually come to grief in this way, their feelings about themselves at the time were generally positive; this assumption finds support in the debtors' descriptions of their situation, the way they viewed their consumer activities at the outset of the problem. Their decisions to make long-range commitments to creditors attest to their belief in their own ability to perform on them.

As their career of interaction with creditors progresses and the extent of their debt commitment starts to become apparent to them, this positive self-image would be expected to change. Our examination of debtors' feelings about themselves after the seriousness of the situation has been recognized will reveal the contrast between self-concepts of credit-using consumers and those who know themselves to be defaulters.

Turning Point: Defining Indebtedness as a Problem

So insidious is the problem of over-indebtedness that, although it may have been months or years in the making, the debtor is likely to be taken by surprise--as much so when it is his own discovery as when it emerges as part of another crisis event. As we have just seen, when the debtor starts out it is as a consumer

using credit for the purpose of obtaining goods that he is unwilling to wait and save up for. While some may tend to be irresponsible about financial management or make purchasing decisions they later regard as foolish, only a few people set out with a deliberate intention of avoiding repayment. Debtors generally expect to repay, and those on the course leading to default continue to hold to the belief that the debt is their obligation and that it will be honored, although perhaps belatedly.

The shift from credit-user to troubled debtor is usually so gradual that the line of transition may be imperceptible to the person involved at the time. He begins with an acceptable credit rating and a positive outlook on the future which invite him to make promises in the sincere expectation of fulfilling them. Somewhere along the line his circumstances begin to change, but the debtor may be in dire trouble before the whole picture is brought into awareness. Many times it is only by hindsight that troubled debtors can identify the point where a change occurred in the course of events; even in retrospect some do not see their financial condition as one which had been deteriorating over a long period of time. In several of the interviews, for example, the calamity which aggravated and thus called the debtor's attention to the dreadful state of his financial picture is given full blame for the problem. "I would have kept up with my payments," they say, pointing to a job loss or illness, "if only that had not happened."

Since transformations of the debtor's immediate world occur as a gradual process, it is his perception of changes in his career that is important. In constructing his actions as consumer debtor and defaulter, he takes account of differences across at least three discernible phases of the indebtedness experience, but passing from one stage to the next is largely a matter of his own definition. Our purpose in attempting to establish the existence and nature of specific turning points is to show that changes in the debtor's situation, to which he responds with a different form of thinking and conduct, are essentially of his own making. He addresses the world in a new way only when _he_ has come to see it as a new or different world. Put another way, the debtor alters his view of himself and his mode of conduct toward his social environment when he sees his circumstances as changed, when he redefines the situation.

We have somewhat arbitrarily identified as the first phase of the indebtedness experience that set of circumstances wherein the individual operates as a "normal" credit user and we have indicated that in the second phase, as a defaulter, the individual's actions and feelings are expected to be quite different. To discover whether people do indeed think and act differently as defaulters than they do as consumer debtors is our major goal. If this is so, we also want to know what the individual perceives that brings him to define this as a new situation, one that calls up new patterns of conduct and a different set of attitudes. Drawing on debtors' accounts of their personal experience in debt

situations, we have made the assumption that such changes occur after the debtor has come to regard his indebtedness as a problem for him. It seems plausible that although he may have been over-burdened with debt for some time with realizing what consequences lay ahead, there must be a time that the debtor can look back upon and identify as the point at which he became aware that he was in trouble. It is likely that such a "moment of truth" would take place either as an event in itself for the debtor or concurrent with another crisis affecting his financial affairs, and on this assumption the question was put to the debtors interviewed: What was it that first led you to believe that you had too much debt? Did something happen that made you think of your indebtedness as a problem?[5]

The responses tended to fall into three main categories in terms of the circumstances or event debtors identified as the point of change in their experience. There was some overlap since several mentioned more than one thing that made them see their debt condition as a problem, but half of the 42 persons clearly made the discovery on their own. Here is how two of them described it:

> Yeah, there was a turning point because, ah, well we were just simply overwhelmed with the amount of the bills stacked in the drawer every month and I just looked at it and, ah . . . I had to make--to total, and it was getting worse. But then all of a sudden it was just really bad. I mean I just--I realized I was really in trouble. Like I say, I had, ah, $400 a month coming in and like $700 to pay out a month.

In a similar case:

> I guess the realization struck me--oh, it wasn't a sudden thing like a lightening bolt. I could, you know--well for years I've said, "Now this has got to stop." But, but about

> three years ago for the first time in all these many years a month came when I saw there was no way I could make my payments.

A few of the debtors said that they anticipated their problem and began to see themselves as headed for trouble before it became extremely serious; in one such case the debtor came upon his debt-income imbalance when taking stock of his financial condition as he laid plans to attend college. Approximately one debtor in five indicated that he did not realize a problem existed until he began to receive calls and notices from creditors. In most of these cases, however, the interviewees disclosed a vague worry or said they had some idea that things were building up; it is hard to believe that any were totally heedless of their over-extended state before it was made apparent by collectors.

About 40% of the debtors identified the turning point in terms of some calamity that brought a loss of earnings or added debt to upset the family's financial plans. In the descriptions given by many of these debtors it is difficult to determine whether the crisis event brought about over-indebtedness or merely signalled an already developing problem. Some did not confuse the meaning of the event: one woman told me that her husband had undergone a colostomy and was unable to work for several months. "This messed us up with all our little bills," she said, and went on to explain that when the medical problem occurred they couldn't keep up the instalments on home appliances purchased shortly before and had tried to "turn them back in" to forestall the debt crisis when her husband was hospitalized.

Another debtor, who acknowledged that some indebtedness had been incurred prior to the crisis event marking his change of situation, did not attribute his debt problem to the event even though it might well have been given the blame:

> Yes, we're like most people, you know--needed a lot of things when we started out. But we had a lot of medical, too. My wife had brain surgery.

Asked whether he regarded the costs of her illness as the reason for his problem with debt, he replied:

> Well, we. . . . You know, we had the usual--furniture and stuff on time. But she had a $28,000 doctor bill. We had insurance but they only covered $500 toward the surgery itself.

As these comments suggest, it is impossible to judge the extent to which such events exacerbate the debtor's problem; with crises that have economic consequences, much depends on its seriousness and on the individual's financial condition when it occurs. Undoubtedly many of these debtors had made themselves vulnerable by acquiring too great a debt load for their income and as a result they could not prevent the misfortune that befell them from triggering a debacle, but some did not interpret their experience in this way. A common form of response was to report the turning point event, not as a signal of debt trouble, but as its cause. Perhaps some defaulters simply did not perceive the crisis event as separate from the financial erosion already in progress. Others may have found it difficult to admit that they had contributed to a vulnerable debt condition through unnecessary buying and poor money management and were protecting their self-image by attributing

the problem, upon its discovery, to events beyond their control. This question of blame, whether the debtors hold themselves or others to blame for their trouble, will be explored in more depth in a later portion of this chapter.

It sum, it was found that every one of the persons we interviewed could look back upon his experience and discern a particular time or identify a certain incident to mark the point at which his situation took on new meaning for him. This seems to show that the debtor perceives fairly distinct periods or phases in his indebtedness wherein new roles are set before him which may prompt him to address his world and himself in a different way. From what the interviewees have said we understand that after this first turning point he no longer considers himself just another consumer who, like so many others, has some bills to be taken care of at regular intervals; he now regards the need to meet these obligations as a painful burden. Being in debt is now a problem--one that rapidly grows more pressing and begins to encroach upon other areas of his life. Soon much of the debtor's activity comes to be centered on efforts to cope with the debt problem and deal with the troubled relationships to which it has led. This is the experience of the debtor as he enters the second phase of indebtedness.

Phase 2: Meeting the World as a Default Debtor

The period following the realization that he faces a financial crisis is a most difficult one for the debtor. It appeared

from the interviews that this phase could best be examined by pursuing three related avenues: (1) presentation of a general picture of the debtor's experience during this time, including a description of debt enforcers' activities as they appear to persons at whom collection efforts are directed, how the pressure of indebtedness touches other aspects of the debtor's life, and what he does to cope with the problem; (2) how debtors respond to debt enforcers--what are their actions upon receiving dunning notices and calls from creditors, what are the attitudes they hold toward credit granters who have used harsh enforcement procedures with them; (3) the issue of the debtor's self-image--we are concerned with how the individual feels about himself in relation to the problem he faces as well as with his self-concept in terms of the treatment he has received from agents of debt enforcement.

Whatever the route by which the consumer debtor came to his present state, he now finds himself in a predicament where demands for payment are becoming more urgent and the resources necessary to meet them cannot be mustered. To learn something of what it is to be in this position, we asked our interviewees to tell us what kinds of events took place when their past-due obligations began to pile up, and what were the actions of their creditors when payment was not made. When a specific incident such as a call from a collector was mentioned, the subject was asked to describe it in detail. (This line of questioning frequently led to descriptions of their own actions and feelings in response to collectors, particularly in exchanges with those who used a harsh or tough

approach; we will take up the matter of debtors' responses in the next section.) The interviewees outlined their view of the experience of indebtedness largely in terms of specific difficulties it had brought them and the steps they had taken in trying to deal with them. Many told of episodes of interaction with creditors but the general tension and pressure created by collection activities seemed to characterize the experience for most of them. Although all had some kind of troublesome aspect to report, there was quite a variety in the views these debtors had of their situation. The differences in the kinds of events described and the way they were seen by the debtors are largely a reflection of the differences in their indebtedness histories; some, for example, had been in debt before or over a long period of time while for others it was a new and shattering experience. Moreover, debtors who perceived themselves as "in financial trouble" early on, or in a less serious state of indebtedness, were not exposed to the severe collection measures brought against those with large debt loads or long overdue obligations. Thus there is no "typical" incident involving collectors that can be reported; however, we do gain much insight on how enforcement appears to those on the receiving end of debt sanctioning from descriptions of interviewees, as in these examples:

> This one man he scared me--he just got me real upset because he called me, this man from the credit place, and he says, "Well, ah, we don't take partial payments." He says, "We've got to have it all at once." He said that I should call the finance company where we already have a loan and see if we could get the money to pay it all off. I tried to get it and . . . well, then I didn't know, but it was behind in the

> payment so they wouldn't let us borrow any more at Pacific. That man, he made me feel upset, you know, thinking that he wanted the whole $395 all at once, and then he said that if we didn't pay it he was going to take it to court by the next Wednesday and then if we didn't have it--well, he said he was going to garnishee my husband's wages. My husband's boss won't put up with that, so when that happened I was pretty scared. I was just so upset, well I just--I told my husband about it the minute he got in the door.

Another debtor described her experience this way:

> This guy kept bugging me. He told me that he was going to call me every day until it was paid. I tried to tell him I didn't owe it. See, I had put in several [classified] ads at the same time and I thought they had all been paid for. Well, when I questioned it, boy that was when he really started pouring it on. I told him there was a mistake and he said, "Listen lady, we're going to see you in court." He was a real bastard. Well he finally checked with the paper and, true, it wasn't paid, but it was their error because this one ad wasn't on my bill. But he wasn't giving me any benefit of the doubt. They just don't believe you.

A subject who received calls from collectors quite frequently was asked to describe what happened in a typical call. She gave this account:

> Well these creeps they say, "Hello," and they use your first name, like, "Is Mel there?" When they got you on the phone--well this one guy, he called me a thief. He said I was taking other people's money. He told me I wasn't a decent person or I'd pay my bills, and how would I like my neighbors to know, what would they think. He'd call again and again and--I mean, too much. I tell you they can be really nasty. And they'll ride you and ride you.

Many more debtors responded by describing the general condition of receiving pressuring messages than told of specific incidents with collectors. It is evident from what they said that this period is made traumatic for them by the overall experience of receiving many collection calls more than by the individual acts

of collectors. Here is how one debtor described the mounting tension:

> Oh God, they calls ya'--they calls your supervisor, you know, and allows as how you're irresponsible--all kinds of things. There's no place . . . you can't sit home, you can't go to work, you can't visit relatives that you don't have any of this kind of hassle. One called and threatened my mother. Said if they didn't get in contact with me they'd be out, you know . . . it sure upset her. And one pretended they were with the sheriff's department and said they were going to arrest me. It gets so, well you get to where you find there's no place you have peace, you can't get away from the hassle.

The pressure of debt--frustration and worry over not being able to meet payments and the discomfort of having to cut back on family living expenses, coupled with the tension generated by collectors, is not without its effect on the emotional life of the debtor. Most of the interviews contain some mention of personal or family troubles occurring in conjunction with the debt problem. "There was an awful emotional crisis here with the family," one man said, and at least a half dozen others commented that they had had difficulties with the children--"taking it out on the kids" or reacting to "pressure from the kids." Personal emotional problems were not uncommon: "nerves" or treatment at a mental health clinic, the possibility of suicide, and alcoholism came up in six other interviews. Marital trouble was the most frequently mentioned problem; in almost a third of the cases there appeared remarks such as, "the debt problem messed up our marriage," or some reference to divorce or separation. It cannot be claimed that the indebtedness preceded these kinds of difficulties or could be regarded as "causal" in each case, but they undoubtedly contributed

to the strain on the debtor and added to his difficulty of coping with the debt problem.[6]

Ways in which troubled debtors go about coping with the problem vary widely, as does the length of the "coping period" between discovery of excessive debt and the decision to seek help. A few subjects said that they had turned to the counseling agency immediately, when their troubles first became apparent or as soon as they "saw it coming," but there were also some at the other extreme who delayed in seeking help and tried for a long time to solve the problem by other means. Those who tried alternative solutions, without complete success, reported an array of approaches to the problem. These can be grouped into four general categories with approximately the same number of interviewees having tried each method of handling their trouble. Manipulating the financial situation itself was one approach: at least a fourth of the debtors talked about how they had "robbed Peter to pay Paul" as they tried to get a handle on their affairs; many tried to reduce the debt by cutting back on spending and by selling goods to pay off debt or attempting to return merchandise bought on contract; several described this as a period in which they simply struggled with the situation and "tried to figure it out." If there was a most popular approach, it was looking for ways to resolve the difficulty by adding to income; more than a fifth of the subjects had refinanced a credit purchase or taken out consolidation loans, but not a few of them said that they had made matters worse when they "kept borrowing and borrowing" to stay abreast of their bills. Others

found additional sources of income in a variety of ways: some said their wives went to work, welfare aid or help from parents was accepted, they got a second job or tried to "work harder to make more money." A number had been temporarily "bailed out" with money from tax refunds, vacation paychecks, a good month's commissions, or bonuses. A third set of alternatives includes attempts to evade creditors and those which could be thought of as "unconstructive measures." Evasion ranged from "holding off" the creditor by making promises to send payment which the debtor knew he could not keep, to having telephone numbers changed and made unlisted (reported in two cases), to actually leaving the area for the specific purpose of evading collectors. Two persons interviewed said that they had strongly considered doing this, and a young single man told of actually having been a "skip" who left the state and hid out for a time:

> I, ah, see . . . well I went to Florida and I just stayed away from my bills for a few years and, ah . . . but I got homesick so I came back.

Asked if he went to see his creditors when he returned or waited until they found him, he replied:

> Well, ah, I'm pretty hard to find when I want to be--(laughing). I could've . . . well I suppose it was only a matter of time anyway.

Another version of this approach was dealing with creditors in ways which were manipulative if not exactly evasive; some mentioned tactics such as sending small payments to hold off creditors (often to keep phone service from being cut off). Another form was bluffing the creditor, as this debtor describes:

> I, ah,--(laughing)--well this is . . . actually it's kind of funny because I had a $2,500 loan, a note, from ____ Bank and Trust and . . . . Well there was no way, but (laugh)--I had it on a 90 day basis and it was, well I guess it was on the 30th and the guy said, "Gee, Mr. W., we sure would appreciate your paying, you know, this off or, you know, paying some of this off." And I said, "You want me to write you a check for the whole amount right now?" I just challenged the guy. And then (laugh), he said, "Oh no, no, that's all right," he says. And I said, "Would a couple of hundred dollars, you know, be good?" And he said, "Oh sure, yeah." Now if he had called my bluff--well I would've been. . . .

Several debtors indicated that they had made no attempt to deal with the problem constructively, but had simply hoped for a windfall or expected a favorable outcome to a pending or uncertain future event. For some a stroke of good fortune did occur, such as payment of accident claims covering more than costs of that event, but most waited in vain to win the lottery or make unprecedented sales commissions. A fourth mode of coping was to take constructive steps, e.g., asking advice of friends, credit union officials, and the like--which often led to the first visit at a counseling agency, or trying to work something out with the creditor. Nearly a quarter of the subjects said that they had talked with the creditor or proposed some sort of settlement plan to them, but in more than half of these cases they met with little success. This appears to be a major reason for seeking the help of counselors--offers of partial payments are more likely to be rejected when made by debtors themselves than when made on their behalf by counselors. Debtors' inability to work things out successfully with creditors is tied in with the important aspects of this phase of the debtor's experience having to do with his actions, attitudes, and feelings

in response to debt enforcement. It is in this context that we begin to look at the debtor as labelee, how he acts and feels toward those by whom he has been identified as deviant, and we take this up in the next section.

The Debtor's Response to Deviance Labeling

We have been exploring the problem of over-indebtedness as it appears to the persons involved in it; we are about to narrow this focus to concentrate on how people feel when they have become the defaulters at whom creditors and collectors direct persuasion and coercive measures to induce repayment of debt. The issue we are now presenting is properly addressed in terms of labeling theory: following the lead provided in the work of Paul Rock, we have examined the workings of the collection process, presenting the argument that debt enforcement is a form of social control and showing how the "deviance" of indebtedness originates with the enforcers who generate definitions and sanction those whom they have defined as "wrong doers." That is, we have answered the question, Who applies the label of deviant to whom? We have shown how the deviant label is applied to the debt-burdened individual by his creditors and their agents through the mechanism of debt collection. What we now want to know is, What consequences does the application of a label have for the person so labeled?[7]

Although we are to be treating debt default conceptually as deviance, it is regarded as a form of deviance which, while it may affect other areas and relationships, does not form the basic pattern

of the individual's life. The person may be deviant as a debtor only intermittently or on a single occasion and, even as a defaulter, he is ordinarily a conforming member of society in other respects. Deviant behavior which does not constitute a style of life or the basic identity of the individual has been called "situational deviance," wherein the person finds himself in a situation which leads him to become labeled as deviant but only on a limited or temporary basis.[8]

To learn what effects the imputation of deviance by enforcers has on the debtor we asked the interviewees to describe what they did when collectors called or reminders arrived in the mail. Many complied and then went on voluntarily to tell about the feelings and emotions they had in connection with such incidents; the others were asked how they felt when an event of this kind occurred.[9] The subjective orientations these debtors described tend to fall into two analytical groupings: first we have statements concerning debtors' attitudes toward creditors and collectors; their descriptions of their subjective feelings, together with debtors' accounts of their own overt actions in confrontations with collectors, serve as indications of "labelee responses," i.e., debtors' responses to labeling by debt enforcers. Second, we have statements containing debtors' descriptions of feelings about themselves, in terms of having become over-indebted and, more importantly, in terms of his self-concept as a defaulter.

We look first at the actions of debtors in response to debt enforcement. Recounting incidents they had had with creditors and

collectors, the actions most of them described could be generally characterized as hostile or evasive: many debtors said they hung up on the caller; some responded verbally with threats (filing bankruptcy) or challenging remarks--"They talked about coming after the furniture and I told them to come ahead and get it." Others ignored or threw away reminder notices or refused to answer the phone. A much smaller number said they had "burst into tears" and a few had spoken calmly to collectors ("stayed cool" or "levelled with them"). Looking at only the actions of most debtors, we might conclude that coercive sanctioning by enforcers had antagonized and alienated them and perhaps led them to view themselves as deviant. We are given quite a different picture, however, by the debtors' reports of their emotions and feelings in encounters with collectors. Speaking of their reactions to calls, ten interviewees said flatly that they were angry, mad, or annoyed; more than twice as many described themselves as "frightened," "worried," "upset," or "panicky," or said that they were humiliated, embarrassed, or frustrated (because they were unable to pay and could not explain their situation to the caller). Most of those who said they had hung up on collectors' calls indicated that they had done so more out of frustration than anger. Several of the debtors said that they had "told off" the collector, describing their own behavior as "hostile" or "belligerent," but even in some of these cases the debtor gave other indications that his overt actions may not have reflected his feelings. These excerpts from one interview reveal the complexity of the debtor's response pattern:

> They just don't understand. . . . They harrassed the hell out of me. It was the cruelest, most heartless thing that ever happened to me--I finally told them just to--to get fucked. I tried to send a dollar or two, you know, but they'd call and say they wouldn't accept that. It gave me a bad attitude because, well I said, "Fine, I won't send you a damn penny then."
>
> They called and threatened me with, well with everything from being taken to court to being put in jail. I told them, "Ah, come on, you put me in jail, that's fine. I'm sick of fighting you people and I'd just soon hide awhile." I sat down one day, though--I got three calls in one morning. My mother came over, that was just a coincidence, but there I was, sitting on the kitchen floor just sobbing. I just couldn't cope with it anymore. You talk, you try to reason with them and they act like you're a retard or something.
>
> It was just so terribly overwhelming. You know, you get so embarrassed and you're, you know, trying--but they don't seem to comprehend that. You're defeated so often it seems like you can't, well after while you think why should I try? You know you're labeled as bad and you almost get so you believe it yourself. Like they say, anybody that would do a thing like this. . . . You get so you so begin to feel that you're just worthless, that nothing you do could turn out right. I guess, well you never get to the point where it doesn't bother you but--well, after while when they called me I called them everything I could think of. That doesn't solve the problem but it helps me, it makes me feel better.

Although this woman expressed her feelings more eloquently than most, the subjects generally made it clear that the psychological pressuring of debt enforcers does have an impact on them. In this phase, when the debtor's main concern is finding ways to resolve the problem he faces, collection activity reaches it peak. Creditors have moved from "nudges and appeals" to more severe methods and, to the debtor, it seems as if demands and threats are coming at him from all sides. The overall effect is that of being "rattled" or hurried because, although unsystematic measures for coping with the immediacy of the problem (additional borrowing,

"robbing Peter to pay Paul") have been of no avail in solving it, he still thinks that everything could be straightened out if he had a little more time. The debtor is frustrated and anxious over his lack of success in getting his financial situation under control and his inability to convince creditors that he has an explanation for his failure to pay, that he wants to clear his debts and that he is trying. He feels increasingly helpless when he cannot relate successfully to his creditors--"they won't listen," "they don't believe anything you say," "they acted like what I told them was just another excuse." As the debtor is finding it increasingly difficult to deal with the problem and as collection pressure is intensified, the effect of the enforcers' messages is magnified: "they get you down" or "they really get to you" was the way many subjects put it.

The debtor is plainly aware of the way he is defined by the sanctioning enforcer. While only one subject stated this explicitly ("you know you're labeled as bad"), many others conveyed the same idea: "they make you feel like a criminal," "they act like you're some kind of retarded person," "he treated me like I was a thief." Clearly the labeling attempt does not go unnoticed, but what effect does it have on the debtor's feelings about himself? The debtor's attitude toward himself in the role of defaulter represents a change from his self-image as a consumer debtor in the previous phase. Where their remarks about events prior to the turning point had reflected a generally positive self-attitude, debtors spoke of their situation and themselves in more negative terms in

describing their experience as defaulters coping with a debt problem and experiencing the coercion of enforcement. On the whole, the debtors' feelings emerged as depression, discouragement, and unhappiness (worry, tension) more than as guilt or remorse, and aggressive feelings (e.g., retaliating by refusal to pay) were little in evidence. Although the subjects' remarks indicated that they no longer had their former self-confidence and belief in their own ability to succeed, these data do not show that the debtor, as defaulter, has a strongly negative or deviant perception of himself. That is to say, the debtor is definitely uncomfortable in the situation in which he finds himself and it is the situation and his lack of success in changing it that he deplores and finds depressing; he is saddened and embarrassed by the messages of debt enforcers, but he seems not to accept their imputations of deviance or apply the label to himself. Debtors perceive enforcers as "trying to make you look bad," "putting you down," "treating you like you're worthless," but they resist the labeling attempt; few debtors gave evidence of self-recrimination or guilt feelings and, although some feel that being in debt is "degrading," few if any had come to conceive of themselves as the bad person or wrong-doer defined by collectors' labels. For the most part, these debtors find in themselves the resources to reject imputations of deviance--they are not passive recipients in the labeling process. This debtor tells how he worked at retaining his self-esteem:

> I was depressed and, well, actually frightened. But I try not to let it get me down. I mean, well at first I felt like I was really lower than anybody but then I started getting my

> head together and I realized that I'm just as good as that bill collector sitting behind that desk, you know? Of course, I'm still working at it, but now I realize that. . . . Well I look at them as just regular people.
>
> It's like when I went on food stamps. I grew up believing that I am the man of the house and I'm supposed to provide so it's a reflection on me personally--like telling everyone that I'm not man enough to support my family. But, well I kept telling myself--look at these people that are out of work and they've got no chance of a job. Now at least I've got, you know, something--I mean a job and I'm hopeful it's going to work into something. So I've got--well I've got a chance. I keep telling myself, you know, next week. . . .

This phase of indebtedness is a bitter experience for the debtor; it is a situation that frightens and depresses him, but he is not completely cowed by the intimidating tactics of collectors and he is not made to think of himself as an "outsider" who has wronged society. In the debtor's view of things, he has come to a situation that he has defined as a problem, but one he had believed he could remedy. His efforts to straighten out the difficulty have proven to be disappointing, in large part because he is unable to present his case to creditors or convince collectors that with more time he can clear his debt. At the same time he is having little success in getting a handle on his financial situation; the spending habits that contributed to the original problem do not easily yield to change, or the loss of income that led to debt stands in the way of solution. Coping with the problem becomes increasingly difficult within the tense situation created by collection pressure and concomitant personal or family problems. The characterizing feature of the second phase of the debtor's experience is not his acceptance of deviancy, but his frustration; he

had expected to be able to recover from his debt ills by his own efforts but there are too many factors that he cannot control. As this phase nears its end he begins to realize that the problem is not yielding to his efforts and he is frustrated and made more anxious by his inability to cope with it.

Resolving the Dilemma

A definite turning point in the indebtedness experience is marked when the debtor comes to define his debt situation as a problem; a second juncture can be identified by the state of affairs that exists when the debtor perceives the problem as one which must be addressed in terms of definite actions aimed at its solution, when he realizes that simply coping with it and hoping things will improve is not a remedy for the problem. As with the first turning point, we look for an event or the conditions that mark the change in the debtor's view of his situation. What is it that precipitates the need to seek alternative solutions and choose among them?

Recalling the discussion in Chapter 3 (Default Debtor Alternatives), we argued that there are really only two practical alternatives available to the debtor in trouble--he can exit the enforcement career by filing bankruptcy or he can take the role of "help-seeker" and enlist the aid of an organization which will give him the guidance and protection he needs to continue his efforts to straighten out his financial difficulties. We pointed out that what it comes down to is a dilemma--the debtor must choose to pay or not to pay--and, while there are several organizations to aid him

in the help-seeking role, the one he is most likely to discover is the credit counseling agency. We showed that there is considerable structural influence on the debtor's decision-making process: the credit community supports the counseling agency concept and encourages debtors to seek their assistance because this choice results in a paying outcome; it emphasizes the stigma of bankruptcy to discourage debtors from taking recourse to legal release from his obligations. This was the state of affairs with the debtors we interviewed. They had resolved the dilemma by opting for the help-seeking role and accepting the aid of a counseling agency and they had rejected the bankruptcy alternative. Hence, what we are looking for here is, first, what is the event or condition that brings the debtor to perceive the need to take action toward solving the problem and, second, why did these debtors reject the bankruptcy alternative in favor of paying with the help of credit counselors.

Since contact with the interviewees had been made through their credit counselors, it was not difficult to question them about their reasons for deciding to act, to seek help, and then to ask them whether bankruptcy had been considered as an alternative and why that had not been their choice. The subjects had no trouble recognizing that there had been a point where the need to take action became apparent but few identified a specific event to mark it. In almost every case the debtors simply came to the place where the situation was defined as beyond their ability to handle. Their responses concerning the nature of the circumstances at that point fell almost equally into three categories: one set of

subjects said that for them it was the overall situation, the combined problems that they faced. Debt and collection pressures together with other, related, personal or family troubles--sickness, unemployment, alcoholism, marital trouble--culminated in an overwhelming problem. The "last straw" seemed to be whatever occurred most recently, often just a distressing collection call. Another third of the subjects specifically identified the need for protection or relief from collection pressures or legal actions as the main reason for seeking help. This is consistent with other studies which show that harassment and fear of job loss because of garnishment is often the immediate cause of bankruptcy and, since counseling is presented as a bankruptcy-prevention alternative, debtors often look to these agencies for protection. A third group of subjects attributed their decision to the debt problem itself, apart from the threat of legal remedies used by creditors. In some cases the debtor perceived his financial condition as suddenly worsening; some had coped with the problem ineffectively and felt they could not continue, and a few had resorted to help-seeking almost immediately after defining their debt condition as serious. It is probable that the latter, by anticipating trouble and acting quickly, precluded the development of a problem sufficiently grave to consider bankruptcy but this was not the situation with most of the interviewees--very few people said that their debt had never become so bad as to warrant bankruptcy.

At this point in the indebtedness experience the debtor is desperate for a way to ease his tense situation and release him from his impossible problem:

> I thought we could get out of it by doing this and doing that but it didn't work that way. Eventually we had to go with Debt Management--it was just that. . . . We had just got so far gone. I guess you realize it when you see that you're paying out so much and it isn't doing any good--I guess that's the turning point. And then the people calling, that too, it can be pretty bad, you know--people wanting your payments and all this stuff and it just comes to the point where you decide it's time to do something about it. It just builds up until something's got to give. Like I say, we knew we had to go see John [their counselor] before something drastic happened.

Under these circumstances, bankruptcy, despite its attached stigma, is a very real possibility. Even among the debtors we interviewed, and they were at least reasonable candidates for rehabilitation, three out of five said that bankruptcy had been considered and then rejected in favor of counseling and a few others said they thought it might still be a possibility for them; only ten interviewees said they had never regarded bankruptcy as a possible solution.

Their explanations for rejecting or not considering bankruptcy as the way out divided the debtors into two almost equal groups, those who gave practical reasons and those who decided against bankruptcy on the basis of their personal feelings about it. Fear of losing credit privileges in the future was the most common explanation, given by a fourth of all the interviewees. Other practical reasons had to do with the debtor's financial condition: a few could not raise the money needed to file a petition; others felt they had too much to lose in assets or not enough of their

debt was dischargeable. None of the debtors lacked information about bankruptcy.[10] Ten of these interviewees, who became counseling clients instead of bankrupts, said that they had been advised against that choice by a banker, credit union official, agency counselor, or, in one case, a lawyer.[11]

The most commonly expressed personal objection to bankruptcy centered on the debtor's feeling of moral obligation: "bankruptcy is not the right thing," "we made the debt and it is up to us to pay it." A few looked upon bankruptcy as cheating or dishonest; some saw it as damaging to their self-image--"we are too proud for that"--or as admission of failure (failure as earner or money manager). A number of debtors gave reasons that seem to reflect the social norm calling for self-reliance: "I got myself in and I should get myself out," "that would be admitting defeat" (failure to solve the debt problem by himself), "bankruptcy would be taking the easy way out," "I had to do it for myself." The fact that these debtors were willing nevertheless to accept the help of counselors, suggests that the effective normative deterrent may have been the common view of bankruptcy as a dishonorable solution to over-indebtedness.

Although six of our interviewees were unequivocal about having based their choice of alternatives on a moral obligation (to pay) and a belief that bankruptcy (not paying) is wrong, comparative analyses of debtors' reasons for their decisions are not possible with these data. We can, however, make some limited generalizations on the basis of the subjects' explanations as to

why they opted for counseling instead of bankruptcy. Both practical concerns and social expectations enter into the decision but there is also a strong possibility that counselees who have given thought to bankruptcy form their views of what is the best practical outcome and what is socially acceptable on the basis of what they are told by those from whom they seek advice. The following segment from one interview shows how the debtor is moved to the final decision by both practical and normative concerns; we also see the influence of the counselor reflected in the debtor's views as they come to light in this series of questions and answers.

Q: At the time you were getting those calls, did you consider the various things you could do? Going for help, of course, but did you also consider bankruptcy?

A: I went to see about bankruptcy but you need $400 to declare it. I asked Legal Aid and also a private lawyer. He said the better thing was to get some help and go that route because it would cost me $400 cash.

Q: They seemed to discourage you from filing bankruptcy?

A: Yes, definitely. They made a big point to tell me that my credit would be bad, that I'd never get credit again. That it would be better to find someone that would help me pay my bills--that's exactly what he said, but he didn't say Credit Counselors specifically. It was kind of odd, you know, because they told me that bankruptcy wasn't a very good route to go--they'd do it but I had to have $400 cash. And I thought Jeese!-- I can't even pay my bills, where do I get $400? You feel like, my God, I can't even declare bankruptcy!

Q: Well how about CCC, has it ever come up for discussion there? Are you able to tell what they think about bankruptcy?

A: They definitely don't want you to declare bankruptcy. They don't say it right out but. . . . Well, I told them I had asked about it and that I had said, "Hell I can't even declare bankruptcy." They were very kind and they said, "No, no, don't think of the bankruptcy route. Now we're going to help you and everything's going to be alright and if you declare bankruptcy everything is shot, you know." The whole thing

is that your credit would be done, they don't say it costs a lot. It's only what you'd have to suffer because of it. They said that people go into bankruptcy blind. "Well this is great. . . . It nullifies every debt." Except that you can say, "Well I feel an obligation on this debt so I'll just pay this," and like that. You can declare on just some bills if you want to--I didn't know that. They said at CCC that people really think this is the answer and they declare bankruptcy, but then they go try to buy a car or a TV and they can't buy it.

Q: Do you think their credit would have been hurt otherwise? I mean would yours, for instance, be OK at this point?

A: My credit? My credit is no good. I couldn't buy a donut. It's definitely shot.

Q: Well that's what I wondered, if the experience you did have hurt your credit, then what did you have to lose with discharging your debts in bankruptcy so you could start over? Especially in your case, when you had all those medical bills.

A: I don't know, I never considered past the point that . . . well, the financial aspect of it. I just couldn't do it. I do feel an obligation, I owe this money, you know. I owe it and I'll pay it somehow. It may take me the rest of my life but before I die I'll pay it.

Q: You feel it is a moral obligation. . . . Would you think of bankruptcy as kind of a wrong thing to do then?

A: Yes. You know, everybody I've seen that declared it thought it was cute--they'd brag about it, and I used to think, my gosh if they had enough money to declare bankruptcy, why the hell didn't they just pay $100 to this person and that would get him off their back, and $100 to that person to bring them up to date. . . . Besides, an individual doing it is not as acceptable in society's eyes for some reason, you know?

Q: Would you say that was partly what kept you from deciding on it yourself?

A: Well actually, I just didn't have the money.

Q: If it hadn't been so costly it would have been a viable alternative for you?

A: Yeah, at that point it would have been. At that turn in my life it would've been perfectly acceptable. But now I wouldn't even consider it.

The feelings expressed by individual debtors in the interviews suggest that conformity to conventional norms applicable to behavior having to do with obligation and indebtedness figures importantly in the decision, apart from the effects of direct influencing and even among those who said they had chosen counseling over bankruptcy primarily on practical grounds. More light can be shed on the importance of normative demands by looking at the scale data we have available. As explained in the introductory chapter, initial contact with the interview subjects was made in the form of an attitude survey questionnaire presented to them by their counselors. (See Chapter 1, Gathering of Questionnaire and Interview Data.) One of the instruments it contained was a scale measuring "attitude of responsibility for debt payment" which had been designed and used by H. Lee Mathews in his study of causal factors in personal bankruptcy. We obtained attitude data on 149 of the agency clients to whom the questionnaire had been sent; Mathews had administered the scale to a sample of 118 persons who had recently been granted discharge in bankruptcy and to a control group of similar size. Comparison of these distributions of response scores may add to our understanding of debtors' choices among alternative ways of resolving the dilemma. Because these are not matched groups and the counselee respondents do not constitute an accurate sampling of counseling agency clients, statistical tests of differences are not appropriate but the apparent contrast in the two distributions suggests that debtors choosing counseling may hold quite a different attitude about debt than do bankrupts.

Mathews' scale was designed to measure the extent to which individuals (i.e., bankrupts) felt responsible about debt repayment. Lower scale values indicate a relatively lax attitude about paying and a generally favorable attitude toward debt (that is, the idea that debt and owing are not "wrong" or bad). Higher values suggest that the respondent feels accountable, that he has a strong sense of responsibility about repayment and is concerned about his debts. In sociological terms we would say that a person scoring high on the measure has been successfully socialized in matters of money obligations and indebtedness. Trust and the importance of honoring one's commitments, values underlying the American "bill-paying ethic," are reflected in the socially approved behavior of "responsible" consumer debtors. The individual who upholds these values and conforms to the expectations of the dominant social order would regard debt repayment as a moral obligation and he would not look favorably upon the alternative which offers him release from his debt obligations through the court.

Mathews reported his findings as follows:

> Scores of the bankrupt sample on the attitude scale ranged from 19 to 29, averaging 23. On the other hand, the control group's scores ranged from 19 to 31, with a mean of 24. A standard test for the difference between two groups showed that the means for the two groups were significantly different at the .001 level.
>
> Equally important is the fact that 68% of the bankrupt group scored below the approximate midpoint of 25, compared with 45% of the control group. Hence, it is apparent that bankrupts as a group have a distinctly less favorable attitude toward the responsibility of paying their debts than do others of the same socioeconomic class.
>
> Such an attitude orientation may help to explain why some individuals turn to bankruptcy and others seek different

> alternatives. When faced with financial problems the individual who feels little responsibility for debt repayment may be prone to choose bankruptcy.[12]

We have reconstructed Mathews' table which shows the distributions of the bankrupt sample and the control group's scores and placed the score distribution obtained on counseling agency clients in juxtaposition. As an aid in making visual comparison we have indicated the scale value of 25, which Mathews used as a reference for comparison of his groups, and computed the proportion of counselees' scores above and below that middle value. Looking at the three sets of scores in Table 3 we see that, as Mathews reported, there is a larger proportion of scores on bankrupt respondents in the lower range than of control group scores. The low scores of persons who petitioned for legal forgiveness of their debt obligations indicate that these individuals felt relatively lax about paying their debts or less responsible about honoring their commitments. Persons who declined the bankruptcy alternative and chose to become agency clients, on the other hand, tended to score in the higher range on the same scale. While the distribution of bankrupts' scores ranged from 19 to 29, the range for clients was 21 to 35; the modal score for bankrupts was 21, while the score of greatest frequency for clients was 28. Mathews' control group, persons for whom indebtedness was not a salient problem, scored almost equally above and below the reference score of 25, while more than two-thirds of his bankrupt sample distribution fell in the lower range; over 90% of the counselee respondents, on the other hand, had scores

of 25 or above and less than 7% of them, compared with 68% of the bankrupts, scored below this value.

Table 3.--Distribution of scores on scale measuring attitude of responsibility toward debt repayment.

Score	Bankrupt Sample		Control Group		Counselees	
	N	%	N	%	N	%
13						
14						
15						
16						
17						
18						
19	6	5.0	12	7.9	-	-
20	-	-	6	3.9	-	-
21	22	18.6	12	7.9	2	1.3
22	20	16.9	18	11.8	1	.6
23	20	16.9	18	11.8	2	1.3
24	12	10.1	3	1.97	5	3.4
25	16	13.5	24	15.8	15	10.1
26	9	7.6	15	9.9	14	9.4
27	10	8.5	21	13.8	18	12.1
28	2	1.6	3	1.97	26	17.3
29	1	.8	9	5.9	23	15.4
30	-	-	9	5.9	16	10.7
31	-	-	2	1.3	15	10.1
32	-	-	-	-	5	3.4
33	-	-	-	-	5	3.4
34	-	-	-	-	1	.66
35	-	-	-	-	1	.66
36						
37						
38						
39						
	N = 118		N = 152		N = 149	

Bearing in mind the limitations of our data, our results shown in the table are consistent with those of Mathews: persons lacking a responsible attitude about repayment are less reluctant to turn to bankruptcy as the solution to their problem than are those who feel morally obligated to pay their creditors. Conversely, the more responsible debtor who looks upon repayment of debt as his moral duty would prefer to take an alternative course of action by which paying is made feasible. Although these findings cannot be generalized to all debtors pursuing such a course, the very large proportion of our respondent group socring in the "responsible attitude" range strongly suggests that their mode of solution was chosen in conformity with the dominant social norms and values.

Phase 3: The Debtor in the Help-Seeker Role

It was generally the case with the debtors we talked to that they had gone to credit counseling because they believed paying was the right thing to do and they could not do it without help, but carrying out this decision was not always easy. For some, having to face the counselor with his accumulated debts and relinquish to him control of his money matters and responsibility for paying bills was a humiliating experience. As we see from this debtor's comments, it can represent an admission of failure and inability to handle one's own affairs:

> I went because, well, I needed help. But that Credit Counseling--I don't know. At first when I went there I walked by the door a couple times and looked up and down

> the street to see if anybody was looking and then I. . . . Well I mean, I really slunk into that place. I've always handled the money, because my dad did, I guess, and I never did a good job of it. That was, well, like an admission. . . .

After the initial embarrassment, however, the debtor's attitude changes. He feels relieved to have the tension of unpaid debt and the pressure of collectors taken from him and he is comforted by the discovery that others have the same problem. Recalling his first visit one debtor said, "It's a relief to see how big their file cabinet is and see that pile of checks on his desk. I realized, heck there's lots of guys like me!"

Turning the problem over to a counselor can have different meanings for the help-seeking debtor. Some regard agency services as rehabilitative; for them the counselor is someone he has engaged to negotiate with creditors on his behalf and to bring order to his financial situation. Interviewees who took this view emphasized their interest in learning good money management from the experience and, as this debtor did, expressed eagerness to take charge of their own affairs as soon as the difficulty has been brought under control: "Once this is cleared up I wouldn't want to stay with them. I think that would be defeating the purpose of going there in the first place--then it would be a crutch."

Many other interviewees interpreted their relationship with the counselor as a personal one, characterized by their dependency on him as their guide and protector. As we noted in our description of counseling agency services (Chapter 3),

collection efforts against the debtor may be continued despite the agency's attempts to arrange extension agreements with creditors as part of the prorating service and in such cases the client looks to the agency for help. Consequently the counselees, especially those who saw counseling primarily as relief from collection pressures, came to view their counselor as ally and defender, "somebody going to bat for me." Over and over in the interviews the debtors expressed the relief and gratitude they felt being able to refer the creditor to their counselor or talk the problem over with him. This debtor's personal dependence on the counselor is typical of many:

> John has made me feel better when I--when I'm upset about a bill or something. Like, well one day when I went in there crying, I don't know, he just made me feel better. He says, "You don't have to worry about it. We'll take care of it. We'll just pay some on it and we'll. . . ." "They won't do nothing about it," he says. That made me feel better.

Apart from the comfort they derive from the social support of counseling, many clients personalize the functions a counselor performs for him in implementing agency services. It is the counselor's job to intercede with creditors, to take charge of bill paying for the client, and to guide and supervise his spending and buying decisions, but counselees frequently feel personally grateful to the counselor for taking over their problem and regard him as a savior and benefactor. "He brought us over some mighty rough hurtles," one said of her counselor, "I swear by him." Another referred to counseling as "a blessing" and told of finding CCC by chance--"It was really weird, like somebody upstairs was guiding my way." Debtors

helped by the agency feel that a burden has been taken from them; they are glad to be relieved of concern for managing their affairs and making financial decisions. One counselee described what this meant to him:

> The counselor looked it over and then he tells me how much money he had to have and how much I could have each week and that my bills would be paid and--to hell with the creditors because I never had to worry about them again. Wow! What a relief! All the pressures are lifted off. You have no fears, no worries, it's a completely different life.

For some clients counseling becomes a haven where they can abdicate responsibility and lean upon their counselor with child-like trust. A particularly insightful interviewee saw this aspect in her relationship and described it as follows:

> The counselors are just super. They have this quality--well, they're so gentle. There's a firmness when necessary, but there is this gentleness right after it. It's almost like a parental--there's discipline but there's kindness. And, well when you leave there the first time you're so relieved and then after that you know you have to come up with it [the money] every week, but you feel you mustn't let them down. And then you see the possibility is there, that you will be able to get out of it now, with them. It's like a parental--well, taking over. It's taking over.

As might be expected, many counselees have no desire to resume control of their finances and terminate their relationship with the agency. Asked if they would stay with CCC after their debts were caught up, one interviewee replied, "I wouldn't dream of leaving. Paul is my Rock of Gibralter--I ain't giving him up, no way."

We do not wish to leave the impression that all help-seeking debtors are restored to good financial health through agency rehabilitation or counselor guidance, never to become over-indebted again. Although they were not questioned about this, at least nine

interviewees let it be known that they had been in debt trouble before; some had had debt counseling before and three admitted that they (or a spouse since divorced) had been declared bankrupt in years past. Several of the counselees indicated that they had been unsuccessful as clients in some previous experience with a counseling agency; a few said they planned to drop out of the present program because the agency was "only making things worse" by failing to distribute their funds to creditors properly. A surprising number spoke of recent consumer goods purchases (often without knowledge or consent of the counselor) that would suggest they had changed little in their basic buying habits and might soon be over-indebted or back in a vulnerable debt condition again. These exceptions to the general case of the debtor who recovers from a single debt problem and learns from the experience remind us that help-seeking is not invariably the final decision among alternatives.

We have been viewing the counselee as a defaulter who, resisting the deviant labeling of him by debt enforcers, has sought a socially acceptable means of putting an end to his debt career, but the debtor in the help-seeking role remains at least potentially a deviant. If counseling is not successful in solving the problem he could not cope with alone, the debtor is likely to find the ultimate answer in the only way he can--not paying--most likely through bankruptcy proceedings. We do not propose to explain why some defaulters go bankrupt and others do not; we hold that the counselee should be regarded as a defaulter who might have (or could yet) decide on bankruptcy because the debtors' subjective

views are better understood in that context. In the next section we explore the debtor's definition of himself in the help-seeking phase of the indebtedness experience. What is the self-concept of the person who has had to face up to a debt problem and admit to a need for help with it, and what in his view of himself discouraged him from the nonpay alternative?

The Counselee's Interpretation of His Situational Deviance

Our analysis has taken the debt-burdened consumer to the third phase of his experience, through changing definitions of his indebtedness and of himself as the central figure in that situation. When the debtor's drift into financial trouble reaches its culmination in his realization that he has become seriously over-indebted, anxiety and frustration with his inability to handle the problem emerge to replace the positive attitudes with which he began. Under the tension generated by the increasing pressure of debt enforcement, the troubled debtor arrives at a point where he must address the problem by choosing between two courses of action. In the case of the debtors on whose experience we base this study, the dilemma has been resolved by the decision to seek help. At the time that our interview and scale data were gathered, the respondents were default debtors who had opted for the paying alternative by taking the role of counselee; in electing this course, they were acting in conformity with social expectations, i.e., they had decided against the stigmatizing role of nonpaying debtor by rejecting the bankruptcy alternative. Hence, the debtors under examination

are individuals for whom the third phase of indebtedness is a period characterized by on-going efforts to achieve exit from the enforcement career, to remove themselves from the defaulter role and from enforcers' imputations of deviance, by following a route which returns them to the normal, moral community.

As we explore the conception these debtor-counselees have of themselves at this stage in their debt career, we have in effect captured the views which our subjects as actors in an on-going situation held at a certain point in time. The debtors (whose expressed attitudes and feelings we use as our data) were looking upon their own experience and reconstructing the series of past events that had brought them to this point. In their accounts of how they came to be confronted with a debt problem and why those chose to resolve it as they did, we find the debtor's motivations for his actions--the terms by which he interprets his conduct and "explains" it to himself and others.

> For the sociologist, as with his subjects, the question of motivation does not arise except in those instances where on-going conduct recurrently breaches expectation and mobilizes a control reaction from others. This reaction takes the form of a motivational challenge that asks in effect: "Why are you engaging in a deviation from expectations when you might well be doing what is expected of you?"[13]

In our subjects' explanations as to why they failed to pay as they promised, in their expressed motives for making debt commitments they could not honor, we are given a key to understanding the self-concept of debtors whose actions have been defined as deviant but who have thus far not accepted that label or applied it to themselves.

We begin our examination of counselee debtors' self-definitions with a preliminary look at some relevant findings from Mathews' research on causes of bankruptcy (the work from which the two attitude scales used in the present study were adapted). One of these scales, a measure of "responsibility about repayment," was described earlier; the other, to which we now turn attention, is an instrument which Mathews designed to tap "blame orientation." Mathews' interest in discovering whether bankrupts hold themselves responsible for having become over-burdened with debt, i.e., whether they accept or reject the blame for their financial trouble, was based on the observation that "individuals who are involved in behavior that deviates from the norms of society sometimes tend to blame other persons and things for their offenses."[14] On this basis he hypothesized that bankrupts would tend to relate the blame for their debt problem to other persons or conditions outside their control to a greater extent than would the control group subjects to whom the test was administered for comparison. In Mathews' study response scores were obtained on 118 bankrupt and 152 control subjects; the possible range of scores was from 13 to 26, with low scores indicating a tendency to accept responsibility for financial trouble (self-blame) and high scores representing externalization or projection of blame. The results did not turn out in the way Mathews expected; only a slightly greater proportion of bankrupts, 31.4% of the bankrupts compared with 27.6% of the control group, scored above the middle scale value of 18. Mathews reports that a standard test for the difference between two sample means showed

that there was no significant difference in the two means (16.13 for bankrupts and 16.04 for the control group). This indicates that the bankrupts did not project blame for their problem as hypothesized; as it turned out, more than two-thirds of the bankrupt sample subjects blamed themselves for becoming over-indebted and unable to meet their obligations. Before we look at the scores of our counselee debtors (nonbankrupts) on the same scale, we will attempt to interpret Mathews' results in terms of the labeling theory analysis developed in Rock's work.[15]

In his sociological study of debt collection, Rock shows that the collection process, in which responsibility for regulation of debt default is vested, accomplishes this function in such a way that indebtedness is imparted a career-like structure, and it is in this enforcement career that the deviance of default originates; deviance is imposed upon debt default by the collection process. As the debtor is propelled through the series of identifications and sanctions by which indebtedness is socially controlled, he is routinely identified as deviant. The debtor who fails to pay continues in the enforcement career, subject to ever stronger enforcement pressures together with an assumption of his increasing reprehensibility and deviance.[16] A kernel notion in Rock's portrayal of debt collection as a social control system is the concept of secondary deviation. To clarify the way in which this concept may be linked to the decision to take voluntary bankruptcy, thereby providing a plausible explanation for Mathews' findings, it will be helpful to look briefly at the theoretical foundation

upon which Rock has based his analysis. The mechanism by which secondary deviance emerges in the interaction between the control system and the individual who is subject to its regulation is explained by Lemert (who originated this construct) as follows:

> The sequence of interaction leading to secondary deviation is roughly as follows: (1) primary deviation; (2) social penalties; (3) further deviation; (4) strong penalties and rejections; (5) further deviation, perhaps with hostilities and resentment beginning to focus upon those doing the penalizing; (6) crisis reached in the tolerance quotient, expressed in formal action by the community stigmatizing of the deviant; (7) strengthening of the deviant conduct as a reaction to the stigmatizing and penalties; (8) ultimate acceptance of deviant social status and efforts at adjustment on the basis of the associated role.[17]

At the risk of over-simplification, this explanation may be summarized by describing secondary deviance as the product of a progressive relationship between the continued or repeated deviance of the individual and the societal reaction generated by his socially disapproved conduct. An important aspect in the thinking that led to this view was Lemert's belief that the crucial concern for students of deviance was not discovery of reasons for originally violating the norms of society, but understanding the consequences of societal response to the initial errant behavior. In essence, his interest was in explaining the development of a deviant role and self-concept out of social response to norm violations, i.e., to action(s) of primary deviance.

> Deviations are not significant until they are organized subjectively and transformed into active roles and become the social criteria for assigning status. The deviant individuals must react symbolically to their own behavior aberrations and fix them in their sociopsychological patterns.

> The deviations remain primary deviations, or symptomatic and situational, as long as they are rationalized or otherwise dealt with as functions of a socially acceptable role.[18]

As labeling theorists who apply Lemert's observations in their work see it, the beginnings of secondary deviation may be found in the interaction between conduct which is not in conformity with social norms or values and the social reaction to aberrant conduct that likely follows upon it. Social control agents identify the individual as a "wrong-doer" and he is censured and sanctioned for his misconduct and frequently made an object of disapproval in the community. Out of the primary deviation of the individual and the societal reaction to it (labeling and sanctioning by enforcement agents and a general social response of condemnation), there develops a progressive reciprocal relationship "with a compounding of societal reaction out of the minute accretions in the deviant behavior.[19] In short, if the unacceptable behavior is repetitive or continued and followed by punitive reactions by society, the product of this spiralling interaction between the norm violator and social groupings which manifest disapproval is likely to be secondary deviation. Labeled and sanctioned as "wrong-doer," whatever the psychological or situational reasons for his conduct, the individual may see himself as pushed from a place in the social "ingroup" and blocked from playing the accepted role. The hostility and frustration he feels as a result may lead him to forego efforts to construct his actions in conformity with social expectations and assume instead the role defined for him by his labelers. The process by which secondary deviation emerges requires that there be just such an

escalating, interactive development; it is the product of both the individual and society and it must involve the interplay of both subjective definitions and overt actions. In Lemert's words, there must be "a spreading corroboration of a sociopathic self-conception and societal reinforcement" all through the process.[20]

Applying this explanation of secondary deviance to the problem of debt default, and to explain the indicated tendency of Mathews' bankrupt respondents to accept the blame for their financial problems, we begin with the assumption (suggested by Rock) that acquiring debt which cannot be paid constitutes primary deviation. We then draw from Rock's argument the notion that coercive social control could result in escalation of the deviance; that is to say, a possible or likely consequence of social control that relies more on force than persuasion, that produces antagonism and hostility in the debtor, is the generation of secondary deviance. Subjected to harsh collection measures and negative labeling by collectors, a defaulter, then, could come to identify himself as deviant (accept the definition of himself as a "bad" person who makes debt obligations he does not honor) and consequently assume a deviant role whereby he foregoes efforts to make good on his commitments to creditors.[21] Faced with a serious debt situation and the necessity to resolve the problem by either renouncing his debt commitments or by appealing for help and protection against collectors' pressures so that he can honor them, the secondary deviant is not likely to choose the latter course. As the scores we obtained on the counselees with the scale measuring

"responsibility for repayment" suggested, these debtors felt a need to follow the socially approved course of action (paying), whereas Mathews' respondents who took bankruptcy, the not-pay option, appeared to be much less concerned with social expectations (i.e., with conformity to norms which require the honoring of one's obligations as the "right thing to do"). In a similar vein, we submit that the self-blame indicated by Mathews' bankrupt respondents may reflect a self-identification consistent with their decision to resolve the dilemma by a decision to cease their efforts to repay. Admittedly speculative, we offer the following explanation for the bankrupt subjects' tendency (shown by their scale scores) to accept blame for their debt problem: the sanctions imposed on them by the enforcement system in response to their primary deviance was perceived by these debtors as coercive and forceful; the debtor-collector interaction transpiring through the enforcement career, and the deviant labeling of these defaulters by creditors and collectors, did have as its outcome their self-identification as deviants. Embittered by collectors' treatment of them and thwarted in their efforts to recover from their financial difficulty, they came to accept the imputation of them as deviant. Labeled as deadbeats or inept money managers who "got themselves into trouble" through irresponsible consumer behavior, these defaulters came to view themselves as losers or "wrong-doers"; gradually they internalized the attribution of fault to themselves and, as their scale scores indicated, they defined themselves as blameworthy. When the time came for them to take some action to

solve their problem, these bankrupt debtors, long exposed to harassment and degradation by enforcers, had undergone a transformation of identity that permitted them to elect the socially disapproved alternative. As self-defined deviants, they were not deterred by subjective views in line with dominant social values from the performance of an act of secondary deviation, thus they abdicated their responsibility and commitments to creditors by filing bankruptcy.

If this is true, if the bankrupts whose scores indicated acceptance of blame for the debt problem had indeed been moved to secondary deviance, then we might expect that the blame orientation of debtors who took the opposite course would be quite different. These are persons who persisted in their efforts to pay and looked to counselors for help in making this possible; they had resisted the deviant imputations of collectors throughout their experience in the enforcement career, remaining steadfast in their view that paying was the "right" thing to do, and had ended up selecting the course of action that was acceptable to society. Hence, counselees' scores on the scale used in measuring bankrupts' blame orientation should be higher, they should reflect less tendency to fault themselves, to see themselves as "wrong-doers" for having become debt entangled.

Surprisingly, the scores obtained on the counseling agency clients who returned the questionnaire did not differ from bankrupts in the way that we had expected. Although the distribution of clients' scores had a broader range, 13 to 26 compared with 13 to 23

for bankrupts, they were even more heavily concentrated in the lower values. Eight out of ten counselees scored below the middle value of 18, while fewer than seven in ten bankrupts had such scores. Over half of the counselees, in fact, had the lowest possible scores, 13 and 14, while little more than a third of the bankrupt distribution fell this low. Our results, set against Mathews' reported findings (in terms of the proportion of each distribution of scores above and below 18), are summarized in Table 4, below.

Table 4.--Proportions of bankrupt and counselee respondents scoring high/low on Blame Orientation Scale.

Score and Meaning	Bankrupt Respondents	Counselee Respondents
Low (13-18) = Self-blame	69%	83%
High (19-26) = Projected blame	31	17
	(N = 118)	(N = 149)

We must interpret these low scores of the counselees to mean that, rather than differing from bankrupts in terms of self-blame, they blamed themselves for their over-indebtedness just as the bankrupt respondents of Mathews' study did. Why, then, did these debtors persist in their efforts to pay, to seek the help of counselors, when they might instead have chosen to exit the enforcement career through bankruptcy? The anomalous outcome of the blame orientation measurements could be an artifact of the instrumentation: Mathews employed a disguised method of questioning in

building this scale which required affirmation or rejection of statements about how a hypothetical debtor called Joe would react to certain situations.[22] This indirect approach may have confused respondents and perhaps it failed to tap their attitude accurately. However, a more satisfactory explanation for their having chosen to seek help and pay, despite this ostensible tendency to assign the blame to themselves, may be found in the interview protocols. Probing their motivations for extensive credit buying and for continuing to use credit when already far in arrears on their debts, a clue to the apparent inconsistency between their attitudes and their conduct came to light in the verbal expressions of the debtor counselees with whom I talked. While only 17% of all the clients who returned the questionnaire showed by their scores that they did not feel blame-worthy, a decidedly different picture emerged from the explanations for their over-indebtedness offered by the counselees in the interviews. Here there was consensus that the trouble stemmed from outside forces or the actions of other persons. Moreover, these were not just counselees who had scores indicating "projected blame"; of the 42 debtors interviewed, only 6 had achieved scale scores over 18. In other words, the _expressed_ motives of counselees strongly suggest that, while they would attribute over-indebtedness to the debtor himself in the hypothetical case, it could be otherwise accounted for in their own situation.

In the explanations given by the counselees we find the mechanism by which their self-concept was protected from deviant labeling by enforcers; although they were willing to acknowledge

that the acts of over-buying and over-use of credit were of their own doing, they were able to take the "wrongness" from their conduct by providing rationalizations for it. Although they did not deny that they had incurred excessive debt and failed to keep the commitments they had made, the counselees had resisted the deviant labeling of enforcers; societal reaction to their deviance had not been incorporated as part of their basic self-identity. It is our conclusion that because counselees were thus prevented from internalizing the deviance, they consequently elected a course of action in conformity with norms calling for repayment as one's moral duty. Alternatively, for defaulters in whom the social control process has produced secondary deviance, bankruptcy would be the likely outcome.

What we are analyzing, then, in terms of the data at hand, are the actions and subjective experience of debtors who are NOT looking back upon a decision to resolve their dilemma by opting for an act of secondary deviance. Unlike most labeling theoretical studies, we are not interested in explaining how it is that persons who have engaged in such conduct manage to preserve a favorable self-image, how they avoid guilt feelings <u>after</u> they have drifted into deviance and, defining their situation as having no other solution, resort to socially disapproved behavior. We are, instead, examining persons who did not persist in their deviance; deviant self-identification was precluded by their ability to provide reasons for their norm violation which bridged the gap between actions and expectations and permitted re-integration

of disrupted conduct and negotiation of an acceptable identity by self and others. In short, when they were "accused of having done something that is 'bad, wrong, inept, unwelcome or . . . untoward,'" they responded by invoking "accounts," thus neutralizing the questionable behavior and enabling deflection of the deviant label.[23] We will first summarize the argument we have been presenting and then apply this concept to interpret our interview data on debtor-counselees.

We have traced the career of the debtor as he drifts into debt entanglement, enters a period of exposure to intense enforcement pressure, and acts to meet the urgency of the problem by choosing between a socially acceptable and a stigmatizing mode of resolving the dilemma. In so doing, we have taken the position that becoming over-indebted and failing to stay abreast of one's debt commitments constitutes "situational" or primary deviance; societal reaction to this wayward behavior, deviant labeling and sanctioning by debt enforcers in particular, has the potential for leading defaulters to incorporate the deviant label as a part of their self, i.e., they may become secondary deviants; if this occurs, we claim that they are likely to resolve their problem through bankruptcy, an act we regard as secondary deviation. Conversely, the debtor may be deterred from further deviance, and pursue instead a course of financial rehabilitation, if he can disavow the deviance imputed to him by social control agents. Given similar circumstances, secondary deviance may be produced or it may be avoided--it depends on whether the debtor manages to

retain a favorable self-image in the face of societal reaction to his primary deviation by giving "explanations" to himself and others which permit him to be "excused" for his misconduct. If this is the case, although the debtor acknowledges a "wrong doing" (over-indebtedness), he continues to see himself as one whose actions are generally in conformity with social expectations; he manages to bridge the gap between his own normative commitments (e.g., his view of debt as a moral obligation) and his socially unacceptable conduct (defaulting on debt obligations) by rationalizing his actions, by providing statements which relate his actions in breach of social expectation to the situation as he defines it. The defaulter may attach culturally appropriate reasons to his situated actions and, by supplying such a rationale in response to challenging reactions to his wrong-doing, he mitigates or relieves responsibility for his questioned conduct.

Statements (socially approved vocabularies) offered as explanations for untoward actions in response to control reaction are known as "accounts," and one form of account--excuses--has relevance for our examination of debtors' explanations about who is to blame for his debt problem. With the excuse, the person giving the account does not deny the pejorative quality of the action in question, but he denies full responsibility for it. Scott and Lyman have identified the more common types of excuses to illustrate the idea: excuses may be claims that accident represents the source of conduct or its consequences, thus mitigating the actor's responsibility for it; the individual may appeal to defeasibility

--lack of intent, or failure to foresee the consequences of his act or to understand its gravity, for example, may relieve him of culpability; fatalistic items, such as bad luck, may be invoked as an excuse; and scapegoating, alleging that the questioned behavior is a response to the behavior or attitudes of another, is a common version.[24] All of these forms of excuses appear in the protocols.

Of the debtors interviewed, 26 of those who had scored "self-blame" on the scale produced an "account" that related their deviance to their situation, as did interviewees whose scores had indicated a tendency to project blame. Among the accounts given by these 37 debtors, the appeal to accidental events resulting in loss of income was by far the most common (although several sources of blame were usually mentioned).[25] Those who resorted to scapegoating most often put the blame on creditors for making credit too easy to obtain or for encouraging consumers to use credit to their own disadvantage. Six of the interviewees alleged that their former spouse (from whom they had since been divorced) had led them to debt by over-spending, poor money management, or failure to contribute income. Counselees in higher income levels found appeals to defeasibility appropriate:

> One thing that happens to you with credit cards, it's hard to be aware of where you are in relation to your limits. You figure you've got more credit available than actually is there and you tend to overdo it.

And:

> I guess I finally realized that this expectation that I'd always be able to get some more money was, well--unrealistic.

The fatalistic approach attributing the debt problem to bad luck was seldom used, perhaps because it is least likely to be honored in our culture; by the same token, excuses based on accidents may be the most popular because (as Lyman and Scott have suggested) they have the greatest efficacy.

An illustration of the way in which counselees construct their accounts is found in the following excerpt from one of the interviews. This subject had a score of 13, the extreme "self-blame" value on the scale. (He had also scored high on the responsibility measure, suggesting a strong concern about honoring debt obligations; in another part of the interview he indicated that he had seriously considered filing bankruptcy but had been persuaded not to by a banker with whom he had discussed it.)

Q: I'd like to ask you about the way you answered the questionnaire. When you gave your answers, were you thinking about the situation with Joe, or more about yourself and your own circumstances? Is it that you think Joe would blame himself--or do you feel that you're to blame for getting into debt?

A: No, you can't pass the blame around, I borrowed the money. I was sick and there's nothing I can do about that, but still. . . . Well, credit is really too easy. There should be different controls on borrowing money, like government controls--the government should decide what you can afford and keep people within their limits according to their wages.

Q: Well do you think, as you look back on it now, that there was any way you could've avoided it all? If you had it to do over could you have kept yourself out of the problem?

A: Yeah.

Q: By handling money differently?

A: No, by seeing a doctor about my asthma sooner. That's one thing I should've done and that's what put me behind. I lost so much work--and that's a lot of money.

Q: So it was the circumstances. . . .

A: Oh, yes. You know, a vast number of things can go wrong--sickness, trouble where you can't work--even car trouble where you can't get to work, stuff like that. Those things happen all the time. Those are what put people behind.

This individual typifies the debtor-counselees we have examined. Although debt default is viewed as a violation of social norms which he himself embraces, he sees himself at fault for having drifted into over-indebtedness; he has manifested his acceptance of responsibility for the debt problem by formulating it as one and presenting it to a helping agent. Because his actions leading to debt entanglement could be attributed to forces beyond his control, he was successful in mitigating blame for failure to conform with social expectation and he thus protected his self-concept from moral recriminations about becoming mired in debt. This debtor was exposed to social control reactions to his "situational" deviance and was not immune to the coercive pressuring of enforcers, but by constructing "accounts" which "excused" his questionable conduct, he was precluded from internalizing the deviant imputation of enforcers and perhaps continuing to further deviance. While he defined his situation as critical, so serious as to warrant consideration of bankruptcy, this debtor was able to entertain other alternatives as well; indeed, the "easy way out" that would likely have been the choice of an estranged defaulter who had come to regard himself as deviant was rejected in favor of an acceptable means of solution.

Thus the defaulter as counselee emerges from his debt career with his self-identification as a conforming member of society intact. While redefinitions of self have occurred with each new definition of his situation as increasingly offensive, societal reaction to his conduct has not produced a transformation of identity such that he accepts deviant social status and organizes his behavior around the associated role. Although there is in the enforcement process the potential for drastic change in the defaulter's conceptualization of himself, the experience of indebtedness and exposure to social control agents' application of deviant labels does not _necessarily_ lead to emergence of a deviant self. As we have seen in the experience of debtors turned counselee, the errant individual does not remain passive within the labeling process; the labelee is not a powerless recipient of a deviant identity--he may resist or find means to deflect the deviant label. Labeling is a dynamic process in which the labelee is a participant and reinforcement of his deviance as the outcome cannot be always predicted. Our exploration of the experience of "border-line" deviance has shown that the labeled individual is not a "victim" under compulsion to accept society's disapproving identification of him. This analysis has shown that individuals, as Mead insisted, are in constant reflective dialogue with reality rather than simply determined by it.[26]

FOOTNOTES

[1]Manning, for example, reports the discovery of four stages in the natural history of the search for an illegal abortion among unwed coeds; this pattern emerged from analysis of interview materials and a simulated search for an abortionist as part of a "natural experiment" undertaken to "replicate" an earlier investigation. Developmental stages in the subjective experience of deviant actors, and how they are treated in this and other studies, are discussed further in Chapter 5.

The notion of "sensitizing hypotheses" and subsequent discovery of the posited stages in terms of "saturated response categories" found in the interview data is methodologically similar to the "constant comparative" method, an approach proposed by Glaser, which emphasizes generating properties and hypotheses about a general phenomenon, and not the provisional testing of theory. See Barney Glaser, 1965, p. 439.

[2]Herbert Blumer, 1969, p. 3.

[3]My generalizations, which are based on the explanations given by this group of 42 counseling agency clients, are consistent with the findings of systematic studies of causal factors in personal bankruptcy. Mathews, for example, looked to "external or emergency conditions beyond the bankrupt's control" and, alternatively, to "factors within the control of the bankrupt" as likely causes. Included in the latter was "poor financial management"--inadvertence, keeping up with the Joneses, over-estimating income increases, and the like.

Mathews found that in 93 of the 152 cases he examined, the trouble stemmed from conditions outside the debtor's control--for 73 of them it was attributed to involuntary assumption of debt, most often associated with medical problems or marital trouble, and 20 suffered substantial losses of income. In the remaining 59 cases the causal factors were assumed to lie within countrol of the debtor. Of this group, 40 cases (one-fourth of the total sample) were found to have ended up in bankruptcy mainly because of poor financial management. Almost none of Mathews' subjects had ever budgeted and few kept records of their transactions; many felt that their lack of sales resistance led them to make purchases beyond their ability to pay. Mathews concludes: "This lack of prudent financial management on the part of almost all of the bankrupts was found to be the prime factor causing 40 individuals, 26% of the 152 studied, to become overburdened with debt." H. Lee Mathews, 1969, pp. 73 and 80.

[4]"In order to convince themselves that they are getting ahead and that they are not without ambition, workers apply to the ends they pursue the vocabulary of the tradition of opportunity.

They extend the meaning of ambition and advancement to include the search for security, the pursuit of small goals in the factory and the constant accumulation of personal possessions." "Advancement has come to mean the progressive accumulation of things as well as the increasing capacity to consume." Ely Chinoy, 1955, pp. 124, 126. (Emphasis added.)

[5]The phrasing of this question is meant to indicate the tone of inquiry as it was presented to the debtors. Since a standardized interview schedule was not used, the specific manner in which this question was put varied. In many cases the debtor's response developed over an extended period of dialogue.

[6]Marital discord is treated as a causal factor in most studies of personal bankruptcy but the nature of the relationship between marriage problems and debt trouble is ambiguous. In a section dealing with various consequences of the debt problem, Caplovitz looks at marital strain as debt-induced and notes that in many instances it may also figure as a cause. See David Caplovitz, 1974, pp. 283-85. (Cf., H. Lee Mathews, 1969, pp. 24-25 and David Stanley and Marjorie Girth, 1971, pp. 47-48.)

[7]Becker holds that labeling theory places the focus on deviance as an interactive process, the product of transactions taking place between some social group and one viewed by that group as a rulebreaker. Deviance is viewed as behavior that people so label, rather than a quality of the act the person commits. "In defining the problem this way, we direct our attention in research and theory-building to the questions: Who applies the label of deviant to whom? What consequences does the application of a label have for the person labeled? Under what circumstances is the label of deviant successfully applied?" Howard S. Becker, 1963, p. 3.

[8]Jack Douglas has distinguished three forms of deviance. Situational deviance is behavior that is not usual for the individuals involved; it does not form a basic pattern in a person's life and, while it may be something he is involved in at many different times, it constitutes only a small part of the person's way of life. See Jack Douglas (ed.), 1970, p. 10.

[9]We do not regard the collection episodes and their modes of response which the interviewees described as necessarily "average" or typical of debtor-collector interaction. There is a strong possibility that they generalized their experience from the more unpleasant episodes which more readily came to mind or perhaps the incidents they picked to recount were those which showed the collectors as being tactless and rude. It would be best to assume that the debtor responses under analysis are those which would be elicited by collectors using a severely harsh approach.

[10]Dolphin also found that troubled debtors usually have knowledge of bankruptcy. He observed that, although most individuals do not accumulate debt with the intention of going bankrupt, when financial strain increases ("when something happens to upset the delicate balance between solvency and insolvency") they recall that many people go into bankruptcy and they usually know a fellow from the shop or a relative who has had the experience. Robert Dolphin, 1965, p. 112.

[11]We have shown that structural pressures narrow the range of alternative solutions open to debtors and influence their choices among them. See Ch. 2 (The World of the Consumer Debtor: An Overview) and Ch. 3 (Default Debtor Alternatives).

In our interviews, although we did not question them about seeking advice, ten debtors gave "advised against it" as their reason for rejecting bankruptcy. When this response showed up we began asking debtors if they had heard of the wage earner plan (Chapter 13). None of the people we asked were well informed about this alternative; 14 had no knowledge of it and 4 said they had a vague idea of it but did not know enough about it to consider it an alternative. (Cf., David Stanley and Marjorie Girth, 1971, p. 53).

[12]H. Lee Mathews, 1969, pp. 77-78. The tabular data reported below are taken from Mathews' Table 5.1, p. 77.

[13]Gregory P. Stone and Harvey A. Farberman (eds.), 1970, p. 467.

[14]H. Lee Mathews, 1969, p. 11. For the purposes of his research, Mathews related a tendency to project blame to bankrupts' prospects for rehabilitation. Had findings in support of his hypothesis been obtained, this would have been interpreted as an indication that the Bankruptcy Act, primarily aimed at rehabilitation by giving debtors a fresh start, may not be meeting its objectives.

The results obtained by Mathews on the blame orientation measure (described below) are reported in his monograph, p. 78.

[15]I have summarized Rock's analysis, in which he applies labeling theory to the process of debt collection, in my introductory chapter.

[16]See Paul Rock, 1968, p. 179. I call upon Rock's analysis here in order to link the concept of secondary deviance to the self-blame attitude displayed by the bankrupt subjects of Mathews' study. It should be noted that Rock's main thesis has to do with a unique characteristic of the debt collection process in England, its central concern for preservation of debtors' deviance in primary form. He finds that, unlike other forms of

social control, this process is deliberately constructed in such a way as to allow debtors to retain a favorable self-image, to prevent their developing a conception of themselves as deviant. Amplification of debtors' deviance through public degradation and ostracism is avoided because it would likely lead to a transformation of identity, moving the debtor from "situational" deviance to the assumption of a deviant role style which forbade any payment or negotiation.

I have not found this to be the case with the debt collection process in America (see footnote 21, below), but I have applied a part of Rock's argument in the present discussion; namely, that over-indebtedness can be regarded as primary deviance, that it is logically possible for secondary deviance to be induced by coercive enforcement measures, and that such escalation of debtors' deviance would likely result in their unwillingness or refusal to pay. This is consistent with Rock's views, as seen in the following statement: "A conditional deviant undergoing secondary deviation is likely to be confirmed in his alienated status. His chances of redemption are considerably reduced. Thus, dramatized enforcement processes are most dysfunctional to the debt collection system." Paul Rock, 1973, p. 7.

[17]Edwin Lemert, 1951, p. 77.

[18]Ibid., p. 75.

[19]Ibid., p. 76.

[20]Ibid., p. 77.

[21]In this discussion I take departure from Rock's view that, while enforcement processes have the potential for producing secondary deviance, the social control system by which debt is regulated does not transform marginally deviant debtors into "full fledged" deviants. His examination of the English debt collection process follows the debtor's career into the final stage of debt enforcement --committal to debtors prison--but he finds that even those debtors who have experienced this most extreme of sanctions have managed to preserve an acceptable image of themselves, despite prison. Rock contends that although debtors can become secondary deviants, it is the particular nature of the control system (i.e., its restraint in the use of coercive enforcement measures) that prevents them from doing so. See Paul Rock, 1973, pp. 306-307.

While comparison of consumer credit and debt collection in England and America is beyond the scope of this paper, I find that there are two important differences in our system by which secondary deviance among American debtors is made far more likely: first, because credit is much more widely granted and used in the U.S., the debt collection process which has developed in this country is more systematic and severe. Coercive measures which can

produce secondary deviance are employed regularly and without the degree of restraint that appears to prevail in the English system. Secondly, unlike England, American federal law provides the opportunity for discharge of debts through voluntary personal bankruptcy. The Brookings Institution reports the following: "Bankruptcy in Europe is predominantly a creditors' remedy, intended to suppress and punish deception and fraud by debtors and to obtain equal shares in the assets for the creditors." They observe that there are no bankruptcy discharges in most European nations and, while discharge is possible in England, it may be delayed for years or conditioned on certain actions of the debtor or both. See David Stanley and Marjorie Girth, 1971, pp. 241-42.

The importance of this difference in the availability of voluntary personal bankruptcy is this: the American consumer debtor who is subjected to coercive enforcement has at hand a means by which secondary deviance can be made manifest. He has open to him a legitimate (if not altogether socially approved) avenue which enables him to reject creditors' claims with legal impunity and this is an alternative which he may freely choose to take if his situation so warrants. I have taken the position that debtors who do make this choice are thereby revealing a deviant self-view, i.e., the defaulter can become a secondary deviant and (in America) whose who opt for discharge of their debt in bankruptcy are manifesting a deviant self-image. Because English debtors do not have access to this option, Rock's analysis could not have included debtors in a similar position; thus, in his study there was little opportunity for examination of debtors who had a means by which secondary deviance could be expressed, even if it were produced in debtors by the measures of the English debt enforcement system.

[22]Mathews writes, "In constructing this scale it was felt that bankrupts would be unable and even unwilling to give an accurate account of this particular attitude. Thus, as is often done in this type of situation, a disguised method of questioning or a projective technique was employed. The theory of this technique is that every individual describes and interprets a situation according to his own mind-set. For bankrupts to accept or reject the responsibility for their serious financial trouble might be very difficult. It was thus hoped that through a mildly projective scale concerning blame orientation toward financial difficulty, the actual feelings of the bankrupt might be recorded. In accordance with this idea, twelve projective situations concerning financial difficulty were created. These were designed for the respondents to indicate how 'Joe' would probably react in certain situations, thereby revealing who the bankrupt felt was responsible for 'Joe's' troubles and disclosing their own feelings." (H. Lee Mathews, 1969, p. 14.)

The questionnaire used in the present study was adapted from that of Mathews; a reproduction of the questionnaire may be found in the appendix.

[23]Marvin Scott and Stanford Lyman, 1968, p. 48. The authors noted that this formulation was taken from J. L. Austin. See his Philosophical Papers, London: Oxford University Press, 1961, pp. 123-52.

The notion of "accounts" is taken from this paper by Scott and Lyman. "Accounts" are statements (excuses or justifications) made to explain untoward behavior and bridge the gap between actions and expectations, thus "accounting for" questionable behavior by providing a "motive" or explanation to neutralize or render it acceptable.

[24]See Marvin Scott and Stanford Lyman, 1968, p. 48 for definitions of types of accounts, "excuses," and "justifications." It should be noted that the term "excuse" as used here is intended in an entirely different sense than in Ch. 3 where we described collectors' responses to debtors who tried to explain why they were delayed in making payments.

[25]Rock also makes mention of debtors claiming that unemployment or illness prevented their repayment of debt. He observes, "Illness or unemployment not only serves as a reasonable excuse for default, it also provides the basis for an acceptable model of the self. If the debtor believes that he was incapable of paying because he was prevented by outside forces, he cannot define himself as unprincipled or deviant." Paul Rock, 1973, p. 255.

[26]I am responding here to comments by Paul Schervish regarding weaknesses in applications of the labeling approach. See Paul Schervish, 1973, p. 52.

CHAPTER 5

CONCLUSION

Summary Remarks

This study has examined consumer indebtedness and the experience of debt default from an interactionist perspective. Nor merely has symbolic interactionism been adopted as a general frame of reference for dealing with the problem of personal debt as a form of deviance, but the research itself adheres to that commitment. Social psychology in the Meadian tradition differs from competing theoretical perspectives in that it represents a stand which is neither deterministic nor cognitive. It sees human association as an ongoing formative process, a fitting together of developing lines of conduct involving interpretation and definition. It assumes that human behavior is interactive and processual, that human beings, as actors who give meaning to their environment, construct their behavior in the course of its execution. It is most uniquely characterized by its position that individual human conduct, while not socially determined, is influenced and limited or controlled by its societal context and the social environment is at the same time structured and reacted upon by the behavior of individuals.

Substantive issues of concern in this paper--the supplying and use of consumer credit, regulation of personal debt, and problems

of individual over-indebtedness--have been addressed in a manner consistent with the presumptive framework which informs the symbolic interactionist perspective. At the heart of this theoretical approach is the assumption that the human being possesses a self, posited as constitutive of and generated by a reflexive process--a uniquely human capacity for self-perception and self-interaction. Because the individual is seen as a "minded," symbol-manipulating organism engaged in on-going interaction with his social environment, the key to understanding the social psychology of the individual debtor lies in examining the relationship between person and structure; it requires looking at both the structural context and the acting individual within that context. Thus, while our primary interest centers on the person in the role of consumer debtor, examination of the social structural "world" of the debtor is made an essential part of the investigation.

It is important to emphasize that we do not look upon social structure as merely the milieu within which the person is moved by such internal "forces" as drives, needs, or motives, nor as the source of external stimuli determining individual behavior. Rather, social structure--human social organization--has been seen in the way Blumer has suggested, as constituted by the fitting together of the lines of behavior of the separate participants through a process of interpretation to form "joint action," the larger, collective form of action which comprises the fundamental unit of society.[1] With Blumer, we hold that human society is to be seen as consisting of acting people; group life consists of

acting units (individuals, members of collectivities acting together, organizations acting on behalf of a constituency) developing acts to meet the situations in which they are placed.[2] Space limitations do not permit spelling out the numerous sociological implications of the Meadian perspective which we have sought to exemplify in this paper. However, the following excerpt from Blumer's analysis of Mead's writings adequately summarizes the view to which we subscribe and reveals the importance of its uniquely defined concepts to this study. To conclude his discussion of the self, the act, social interaction, objects, and joint action, Blumer describes the way in which human society is portrayed in Meadian thought:

> The picture is composed in terms of action. A society is seen as people meeting the varieties of situations that are thrust on them by their conditions of life. These situations are met by working out joint actions in which participants have to align their acts to one another. Each participant does so by interpreting the acts of others and, in turn, by making indications to others as to how they should act. By virtue of this process of interpretation and definition joint actions are built up; they have careers. Usually, the course of a joint action is outlined in advance by the fact that the participants make a common identification of it; this makes for regularity, stability, and repetitiveness in the joint action. However, there are many joint actions that encounter obstructions, that have no pre-established pathways, and that have to be constructed along new lines. Mead saw human society in this way--as a diversified social process in which people were engaged in forming joint actions to deal with situations confronting them.[3]

Studies of human social conduct which employ the symbolic interactionist approach must take into account its conception of human beings as organisms with selves, and the basic notion that human action is an outcome of the process of self-interaction must be incorporated into the examination. These features of the

Meadian position and its distinctive view of man and society are respected in the design of this investigation and woven into the fabric of the analysis. In considering issues of credit and debt as a social problem area and dealing with personal indebtedness and default as phenomena indigenous to contemporary American society, we have treated human behavior not as reactive responses evoked from the individual but as something the person constructs and directs in coping with the situations which confront him. Our focus has centered on how individuals handle and fashion their world, and that world is presented not as an established social structure but as a dynamic process of interaction among people meeting the conditions of daily life.[4]

So that it would be consonant with the theoretical implications of symbolic interactionism, this investigation was designed as a three-phase work focusing on the substantive problem--issues relating to consumer indebtedness--from three different perspectives. The initial phase, contained in Chapter 2, directed attention to the broader social environment which surrounds and facilitates the use of credit for consumption purposes. Following a brief survey of the practices and organizations by which consumer credit is made available, we presented a descriptive account of the growth and expansion of personal financing and money lending and the emergence of credit-debt organizations in concomitance with social change, pointing up sociologically significant aspects of these developments. The nature of consumer credit and its place as an institution in contemporary American society was then explored;

here we outlined the activities in which various credit-granting organizations engage in meeting the needs of the different social segments that make up their traditional client groupings. This part of the presentation concludes with a description of the intense competition between dominant credit granters which illustrates the way in which the institutional structure that forms the context of personal indebtedness affects consumption behavior and impacts the daily life and affairs of individual consumer debtors.

In the second phase of study (Chapter 3), attention turned from credit and credit granting to debt and its regulation; this section continued the examination of consumer indebtedness from a social, rather than individual, perspective but the focus was somewhat more narrow. Having looked into credit-debt structure at the broadest social level, as part of the overall environment within which credit is granted and used by consumers, this part was concerned with specific organizations and with the operations and procedures they have devised for sanctioning and monitoring credit use and for making collection from their debtors. The sociological analysis of debt collection presented in Chapter 3 is informed by participant observation, particularly by first-hand experience in the role of agency debt collector. It is organized around a description of the devices and strategies that make up the general collection system developed and used by creditors and their agents. We explained the manner in which an enforcement "career" is structured in terms of the increasingly harsh collection measures that are imposed on defaulters. Tracing the progress of an

"ideal-typical" consumer debtor through the various collection stages, we showed how nonpayment is reidentified with the passage of time, and how ever more severe coercion is brought against debtors in default. We then presented an argument for viewing this enforcement process as a social control system, one uniquely contrived for the successful regulation of personal indebtedness. Drawing extensively on Rock's analysis, we called attention to the unusual features characterizing the debt control process. In this connection three fundamental concepts of Meadian social psychology figured importantly--interaction, taking place among individuals and organizations as acting units of society, and the on-going processes of interpretation and typification by which symbolic social interaction is made possible. With these concepts in mind we explained that collectors, as social control agents, construct typologies upon which they rely in differentiating among debtors and determining what sanctions to impose and we showed how their interpretations of debtors' responses to enforcement measures are used in making these determinations. We explained how debtors, as they are repeatedly tested, classified, and sanctioned by collectors, are thus propelled through an ordered series of interactions by which indebtedness is given a career-like structure and failure to pay is defined as increasingly wrongful. In sum, we have depicted debt enforcement as an interactive process wherein individual conduct is interpreted and defined as wrong-doing by members of an identifiable social group who regard it as a problem and bring effective sanctions against it.[5] In other words,

we have shown that debt enforcement constitutes a mechanism of deviance labeling and that it is in the workings of the system by which debt is socially controlled that the deviance of default originates. Deviance is imposed upon debt default as a consequence of the defining and sanctioning of debtors by social control agents in the performance of debt enforcement.[6]

With Chapter 4 the focus was shifted from the societal to the individual. Building upon our description of the organizational side of debt collection and our examination of the social labeling machinery contained in the routine procedures of debt enforcement agents, the final phase of study was aimed at understanding how indebtedness and debt enforcement practices are perceived by the individual consumer debtor at whom they are directed and showing how he constructs courses of action in response to debt sanctioning. Here our analysis was centered on the personal, subjective side of deviance and control. A central point of inquiry had to do with the effects on the person of control agency processing as it works to differentiate debtors and tag as deviant those who fail to pay. In particular, we were concerned with debtors' self-conceptions--how they changed in the course of the indebtedness experience and whether, through interaction with the social control system, defaulters are propelled toward a deviant self-concept. This part of the study was based primarily on information obtained from debt defaulters in unstructured interviews, supplemented by attitude scale data. Drawing on debtors' descriptions of their interactions with credit-debt organizations, we attempted to

reconstruct the course of indebtedness in terms of the individual's on-going experience as a debtor. We intended this chapter to complement the previous one, i.e., we tried to present the debtor as the "collectors' counterpart" and to suggest the general parallel between the objective enforcement career and the developmental character of the subjective experience of debtors; where the one chapter concentrated on the way the enforcement process organizes and imposes a career-like structure on debt default, the other explored the debtor's perception of his progress through different indebtedness situations as he defines them. We depicted the "indebtedness experience" as a sequence of three phases delineated by two major turning points. We traced the path of the debtor through the drift to over-indebtedness to the point where he comes to view his debt as a problem; we saw him coping with the difficulties of financial distress and the coercive treatment of collectors to the second turning point, where he recognized the urgency of finding a solution and, finally, we observed him making a choice among alternatives and setting out on a particular course of action to meet the conditions he perceives. This phase of study gave emphasis to the way in which the individual constructs his actions in terms of the meanings he gives to his situation and to the way this meaning unfolds by and through interaction; it specifically stressed these notions in its concentration on turning points. The points of marked change in the debtor's situation were defined as contingencies by those experiencing it and it was at these points--when the debtor saw new meaning in what had happened to him which led to

a different view of himself and his circumstances--that his "career" took on new direction. We saw that turning points are frequently defined as or associated with crises and, as Manning suggests, crises may be seen "as the axial points around which new meanings of self crystallise, and new careers are launched, e.g., help-seeking processes."[7] We found this to be the case among the debtors we studied. The juncture at which debt-laden individuals see their situation as critical can be a point of status change (as from defaulter to bankrupt), but it can also mark a change of direction which finds debtors entering a new "career" or phase of experience, as with debtors entering the help-seeker role. In the closing section of the study we focused attention on just such individuals, i.e., those who, upon seeing themselves faced with a critical debt condition, turned away from the solution to be found in bankruptcy and sought help in meeting the problem in a more socially acceptable manner by voluntarily becoming counseling agency clients.

Discussion

In the foregoing summary we have indicated areas of this investigation in which the concepts of deviance and labeling have importance. Here we will discuss aspects of the deviance labeling orientation which have been found to be ambiguous or misleading and point out ways in which we have tried to respond constructively to some of these criticisms; we will also consider other problems in labeling theory that came to light in the present study.

In the proliferation of deviance research which followed upon the publications of Lemert and Becker in recent years there has been a tendency to trivialize the social defining process and its consequences and to over-state basic notions of deviance labeling expressed in these writings (e.g., "deviant behavior is behavior that people so label" and "social control leads to deviance. . . ."). The insightful ideas of proponents of this view of deviance, taken out of its symbolic interactionist context and made the basis of an explanatory "theory," have, as Lemert comments, been indiscriminately applied and vulgarized.[8] Not much of the work in this area has been directed toward the clarification of sociological questions. This is one of the criticisms that has been made of the labeling approach; Fabrega and Manning point to "the tendency of labeling theorists to focus upon bizarre or exotic behavior of groups rather than cases chosen solely for their potential value for clarifying sociological questions."[9] The critical commentaries of these and other writers include the following points of weakness in labeling theory: the vagueness of the term "deviance"; looseness of the career concept; implied bias in presenting the labelee as passive and exploited, the social control agency as the power elite; emphasis on societal reaction to the neglect of subjects' response.[10]

Although this approach to the study of deviance suggests application to a wider range of human conduct, the bulk of labeling theory investigations have as their focal concern illegal or criminal acts or some form of human behavior that is widely disapproved or commonly regarded as pathological, stigmatizing, or

strange. The typical analysis begins with the "deviant" individual. Asserting or implying that he is essentially "no different" from ordinary people but that he has been made an "outsider" by social designation, it looks to the workings of the organization responsible for control of the behavior in question for an explanation of his aberrance. Since social definition is an important part of all human behavior, selecting a case of "known" deviance (i.e., focusing on actors whose behavior is in violation of laws or, by consensus, a departure from normative expectations) and showing that societal identification and classification processes are involved in the organizational treatment of that form of conduct does not afford much opportunity to explore the potential of the labeling approach. Moreover, such studies tend to be misleading; they give the impression of sociologistic determinism by overlooking the interactional aspects of social defining and their neglect of subjective factors, self-interaction and the like.

In this discussion we will explain in what respects this research is different from most deviance labeling studies and sketch out some advantages of our approach. First, the behavior under examination is not a "classic" form of deviance, such as crime, juvenile delinquency, prostitution; personal indebtedness is a gray area in which "deviance" is not a given. Debt commitment is not wrongful per se and there is nothing uncommon or bizarre about owing money; defaulting on debts is not a highly visible offense which excites moral outrage (as do murder or rape).[11] This investigation also departed from the usual pattern in terms of the cases

selected for study and the point where analysis began. In applying labeling theory to indebtedness and default, we did not begin by focusing on a limited set of debtor roles and behaviors widely regarded as reprehensible (e.g., deadbeats, skips, bankrupts) with the aim of showing how their debt-related actions, involving fraud, evasion, or renunciation of commitments, led them to becoming "deviants" as a consequence of coercive social control. Rather, the analysis started with an examination of the social context wherein a definition of default as deviance would have its origin. Locating in the debt enforcement process a mechanism whereby deviance is constructed and deviant identifications imparted to defaulters, we then showed how consumer debtors may enter this process and move through its various stages of sorting, typing, and sanctioning and thus be ascribed a deviant label. To explore the effects that imputations of deviance to him by social control agents may have on the labelee, i.e., the consequences of labeling in terms of debtors' self-concepts and future behavior, we examined subjects who, having made debt commitments they did not honor, were exposed to treatment by control agents but did not continue in a deviant "career." We concentrated on responses to societal reaction of debtor labelees who, rather than persisting in deviance, had chosen to pursue an alternative course of action as a way of meeting conditions of enforcement sanctioning.

Putting "common" social behavior to examination under labeling theory brought to the fore the essential concepts of symbolic meaning and process and called attention to the emergent quality of

deviance. This strategy served to highlight the idea intended in Becker's statement that "deviance is behavior that people so label" without causing it to appear trivial. Showing that collection operations center around control agents' interpretations and differentiations developed in the context of on-going interaction with debtors and that indebtedness is "made" deviant in increasing measure through the workings of the system by which it is enforced gave emphasis to labeling theorists' conception of deviance as not simple rule violation but the product of contingent, dynamic social processes. By focusing on a form of "everyday" behavior and explicating the process by which its definition as deviance is originated and imparted to social actors, the key notion of labeling theory has been made more meaningful: "Deviance is not a quality of the act the person commits, but rather a consequence of the application by others of rules and sanctions to an 'offender.'"[12]

We suggest that misunderstandings about deviance and labeling stem in large part from researchers' lack of interest in applying labeling theory to "border-line" forms of behavior.[13] Concentration on dramatic and predatory actions has not illumed the character of "deviance" or clarified its definition; more, it has under-stated the developmental, contingent quality of social definitions and shown deviance as an either-or sort of phenomenon rather than a process of "becoming." Almost exclusive concern with classic types of problem behaviors, particularly those controlled by formal organizations or involving institutionalization of the deviating individual (e.g., law enforcement, treatment of mental illness)

has invited misconceptions about the relationship between deviating actors and controlling organizations, about the role of the individual in the mechanisms that create deviance and designate actions as deviant, and about the nature of the labeling process itself. In the conventional treatment of social labeling there is seldom an occasion to question or probe more deeply into the way in which certain actions become deviance by their social definition as such. It is only a partial exaggeration to say that "labeling" oftimes becomes little more than a cliché. Variously presented in the literature, the process appears facile and instantaneous, more an "occurrence" than a complex process, and, in many cases, a unilateral imposing of definitions rather than a developmental, interactional process in which definitions are constructed and communicated but not invariably adopted and acted out.

We do not claim to have remedied the shortcomings of labeling theory in this study, but by applying it to debt control and default we have presented the possibility of exceptions to the usual conception of labeling and its outcomes. We find, for example, that the individual is not necessarily passive and powerless before a controlling organizational force. He may, in fact, participate in the activities leading to the construction of deviant definitions. In debt enforcement the consumer debtor is seen taking an active part in the control process, interacting with collectors, choosing among alternative modes of counter-response, developing lines of action for dealing with creditors and their sanctions. By looking at indebtedness, for which there would be no organized social

defining without the collection system, we pointed up the complexity of the social and psychological processes involved in labeling and the profound consequences it may have. By focusing on both the labeling source and the recipients of labels in terms of indebtedness, we call attention to the processual nature of labeling and emphasized the emergent, sometimes ephemeral, quality of deviance. Above all, the approach we have taken in this study lays stress on the progressive reciprocal relationship between the deviating actor and the societal reactors and controllers of his behavior, and on the dynamic aspects of the processes of labeling and being labelled. Our treatment of the concept of career was one means of calling attention to these points; another, discussed below, derived from our selection of counseling agency clients as research subjects.

By presenting debt enforcement as a sequentially organized system which relies on typifications of debtors at each successive stage of sanctioning, the importance of the notion of career was brought to light and made significant in terms of the process of "becoming"--of making identifications of "increasing" deviance. We portrayed a debt enforcement "career" as objectively structured by the practical concerns of creditors and collectors; stages in the collection process could be identified by observable "bench marks," such as creditors forwarding accounts to a collection agency. A different conceptualization of "career," however, was introduced in our examination of the individual's side of the collection process. The on-going experience of indebtedness was depicted as a subjective career made up of the debtor's personal recognition

and interpretation of events in his life. Major phases, delineated by turning points in the course of the debtor's experience, were located; these turning points were conceived not as objective markings of steps in a career-line of indebtedness, but as contingencies interpreted by debtors as they are encountered. Treating turning points as "career contingencies" and distinguishing the objective enforcement career from the subjective experience of events in indebtedness are significant features of this study because they allow for a challenge to the view of social labeling as a unilateral process by which the individual is predictably moved through stages culminating in his acceptance of a deviant role and identity. Unexpected alterations in the orderly course of events which thrust new conditions of life on the individual need not mark increments in his deviance; turning points may instead signal places at which he reconstructs and gives new meaning to this situation and works out new ways of meeting it. A turning point can be a stage-marker where situational deviance turns into a new way of life but, as shown in this study, it may also be the contingency upon which a new career is begun.

The purpose in calling attention as I have to two conceptualizations of "career," and in showing, with two different kinds of data gathered from two different sources, that debt collection and the indebtedness experience are separately structured as two different kinds of career--one objectively and one subjectively defined--was to give substance to our argument against the notion that the labelee is inevitably moved through a series of fixed

stages of lesser-to-greater deviance.[14] We took the position that a career line can be identified in terms of the practices of creditors and collectors, but the debtor's progression to ever more serious "deviance" is in the eyes of debt enforcers who bring increasingly severe sanctions against him, and this does not mean that the labeled-sanctioned debtor necessarily becomes more deviant as a result. We agree with the claim that misconceptions in the application of labeling theory have tended to give the societal reactions approach to deviance a deterministic cast, and our research provides what we believe is a more accurate interpretation of this view by taking into consideration the individual's own definition of his "progression towards increased deviance." While we recognize an objectively structured deviant career and illustrate the development of such a career in terms of debt enforcement activities, we have also presented a documented argument for the presence of a subjective career structured by the individual's own perception of his actions and the behavior of others toward him, and the conditions surrounding them. We have found that while there are definite events marking points of intensified sanctioning, the place to look for a change that signals or launches a new way of life is in the experience of the labelee where changes of self-identification are to be found. As we have shown, the phases in this subjective career are marked by decision points, places where greater or "secondary" deviance might occur, but that outcome is contingent on many factors present in the individual's perceived situation

other than (but including) a stepped-up level of societal reaction to his disapproved conduct.

Since our chief goal in this paper was to explore indebtedness from two points of view, seeing it from the creditors' (organizational) side and from the debtors' (individual) side, examining the two sides or versions of the "indebtedness career" was a major theme in the work. Locating two sets of features by which indebtedness is given a career-like structure, first the patterning emergent from organizational enforcement and another in the individual's recognition and interpretation of the succession of events experienced as a debtor, we have in effect been looking at two separate careers, and something should be said of the way in which they are related. The career line created by the processes of credit-debt regulation consists of a series of organizationally defined statuses corresponding generally to the "debt condition," the extent or seriousness of the state of indebtedness. (This notion is schematized and explained in the beginning of Chapter 2.) In terms of this aspect of our career analysis, the objective career, we are looking at status passages, i.e., the individual's movement through the sequenced activities of enforcement. The counterpart of these movements through the organizationally defined stages of debt sanctioning, the subjective career, involves changes in self-conception that may accompany positional relocations. We do not, however, link debtors' self-redefinitions directly to the status changes through which debtors are propelled by collection processes, as some social psychologists appear to suggest doing. Lindesmith,

Strauss, and Denzin, for example, have written that "Objective careers--these movements through statuses and positions--produce a counterpart, termed the 'subjective career.'"[15] In our presentation, the subjective career is not "produced" by the objective career but they are interrelated through the phenomena that comprise the "debt condition." The two careers are essentially two modes of patterning the events of indebtedness, one as these appear and are handled by organizational processes and the other as they are perceived and defined by the debtor; creditors impose one form of structure on indebtedness for the purposes of regulation and control while debtors, looking at indebtedness phenomena in terms of their own experience, create a different pattern out of their definitions of their changing situation. These two versions of the patterning of indebtedness phenomena may coincide or overlap but they are not identical, and the importance of this to the present research on debtors' self-redefinitions is that it is the subjective career that counts. The objective career, the debtors' passage through increasingly deviant statuses, is patently of fundamental importance in the explanation of deviance labeling, for it is the larger part of the mechanism of labeling, but it does not determine the individual's redefinition of himself as deviant.

Although I have not attempted to spell out in detail the exact nature of the relationship between the objective and subjective careers, my definition and application of these concepts in this work makes clear their integral importance in any attempt to explain the way in which the self is formed and changed in the

interaction between person and social structure. In my use of career as a dual concept I have drawn upon Stebbens' paper exploring the nature of the subjective career which contains a tentative effort to outline its relationship to objective career components.[16] The utility of the concept of subjective career in explaining self-definitional changes, made apparent in the present research, strongly suggests the need for more specific exploration of the subjective-objective career relationship, although such an examination was not possible within the scope of this paper.

"Process" is very likely the concept or theme most central to labeling theory, and it seems also to be the most troublesome to writers in this area. In large part, criticisms of the labeling orientation are pointed to issues that relate to the <u>nature</u> of the processes involved in deviance labeling: the process by which deviance is identified, shaped, and given boundaries--i.e., "created"--in the course of its control, and the process by which "full-fledged" deviance is developed out of "initially erstwhile and unpatterned deviations" of the actor.[17] These processes are of concern in most labeling research and they thus involve in one way or another the notions developed by Lemert, societal reaction (especially as it pertains to social control) and secondary deviance, and Becker's elaboration on his work, particularly that surrounding the "career" concept. Principal criticism of works applying these notions has been aimed at writers' over-emphasis on societal reaction to the neglect of subjects' responses to the reactive patterns elicited by their disapproved behavior and their tendency to

overlook the interactional aspects of the process leading to deviant roles and self-identification. Manning's critical commentary points to the more important misunderstandings or false impressions found in much labeling research, and he observes that

> In cruder versions of labelling theory there is a tendency to set aside or overlook the earlier interactional insights [of studies carried out in the spirit of Meadian thought] and to eliminate the interactional in favour of exploring the unilateral effects of confrontations between authority and the victimised deviant. The deviant is at times only a passive recipient of the pressures, forces and strategies of more powerful others.[18]

Critics note also that the term "career," loosely defined and uncritically applied in examinations of actors' movement from temporary, unsystematic deviations to involvement in deviance as a life-style, has contributed to the distortion of labeling theory and inaccurate portrayal of the processes it involves. Lemert recently commented that labeling has come to convey the impression of "crude sociologistic determinism" and he credits Becker's elaborations and researchers' preoccupation with official agencies of control with developing a view of labeling that does a disservice to Mead.[19] Many critics agree that labelees tend to appear as underdogs, victimized individuals exposed to a process that works only one way; labelees are pictured as passive organisms who accept coercive sanctioning and take it to heart, never responding aggressively to reject deviant designations. Deviants are "successfully labeled" by exploitative features of societal reaction and set upon a course of action (a career line) which has as its final step the emergence of a deviant self. Little attention is

given to the place of human choice in the interaction processes involved in creating and taking on labels; self-conception is seen as transformed by societal reinforcement of deviance, but seldom presented as a possible outcome of "a progressive reciprocal relationship between the deviation of the individual and the societal reaction," as Lemert sought to emphasize.[20]

In this investigation of debtors we intended that our treatment of "career" (explained earlier) would controvert some inaccuracies about the labeled individual's path toward eventual deviant self-conception as an outcome of societal reaction. A definite challenge to the idea that this is the outcome to be expected as a consequence of social control comes out of this study through our concentration on subjects in a labeling situation who were following a course other than continued deviance. Because changes in self-concept, particularly transformations to secondary deviance, were the primary research issue, the feelings as well as the actions of individuals in their several debtor roles were of interest, and the feelings of defaulters subjected to coercive treatment received greatest attention. We found that the elements which could produce secondary deviance were present in the circumstances surrounding debtors' progress from consumer to alleged wrong-doer, and the subjective reactions to collectors' sanctions, described by the debtors themselves, strongly suggested that they were candidates for deviant self-conceptions. Illustrative statements of debtors presented in Chapter 4 revealed their deep feelings of resentment and frustration about the position they were in

and the treatment they received at the hands of collectors; many felt hostility and a sense of injustice; they spoke of their humiliation, not only by the abuse of collectors, but because they were seen by others as dishonest and untrustworthy. In detailing the way collectors do their work, it also came to be seen that debtors' feelings of resentment and frustration, entirely appropriate to their situation, could be expressed only at risk of validating deviant definitions already placed on them. Tracing the events in the experience of the debtor we found so close a parallel to the sequence of interactions leading to secondary deviance as Lemert describes it that we can, in fact, paraphrase his illustration (he used an errant schoolboy) in terms of consumer debtors' behavior. My version using debtors goes this way:[21]

The consumer, "for one reason or another," becomes laden with debt and, failing to pay his creditors, he is penalized. Becoming further over-indebted (perhaps by using consolidation loans to pay other debts) and continuing to default on his obligations, he encounters stronger penalties and pressuring from debt enforcers. Then the debtor is tagged as a bad risk and referred to by collectors as a deadbeat or thief or other invidious terms. "Hostility and resentment are excited in him." Finding creditors reluctant to believe his explanations and often unwilling to accept his offers to repay in small amounts, "he may feel that he is blocked in playing the role expected of him." Thereafter, there may be a strong temptation to assume his role in the community as defined by creditors and their agents, "particularly when he

discovers that there are rewards as well as penalties deriving from such a role." (He may resign all efforts to pay and focus his resentment on those doing the penalizing; reacting to enforcers, he may avoid paying by eluding his creditors or having himself declared bankrupt.) As did Lemert, we note that there is no implication here that such individuals do go on to acceptance of deviant social status and efforts at adjustment on the basis of the associated role. If secondary deviance does emerge, however, it is the product of just such a progressive reciprocal relationship between the deviation of the individual and the societal reaction.

Our investigation of debtors in default revealed that the conditions for producing secondary deviance were present and, by their own statements, the debtors under examination indicated a potential for self-transformation to secondary deviance. Their conceptions of themselves had been altered at various points in their on-going experience but devaluation of self on society's terms was not in evidence among these debtors at the time of our inquiry. Although these individuals were exposed to the pressures, forces, and strategies of more powerful others than can lead to deviant self-identification, they did not remain passive recipients of organizational defining and sanctioning in the labeling situation; although they were not unaffected by the treatment of "stronger forces," they had not internalized the condemnations of control agents. Their deviations remained situational and primary because they were being dealt with as functions of a socially acceptable role.[22] Adjustment to the overt and covert problems created by

societal reaction to their situational deviance had been made, or at least was being attempted, on the basis of an alternative role and not in terms of a role organized around subjective identification of themselves as "deviant."

We do not suggest an explanation for this outcome of social labeling in terms of "factors" which assumedly intervened in the process and prevented the "expected occurrence" of secondary deviance. The significance of this study is not so much in its "finding" as in its clarification of the nature of the labeling process and the documentation it provides in support of the claims made by labeling theory critics. When social labeling is made to appear as a unilateral process, when the action-reaction of deviants and controllers is seen as a sequence of interactions between powerful organizations and inert recipients, and when there are implications that the consequences for passive labelees are almost certain to be escalated deviance or further progress in a "deviant career," labeling comes across as a determining force; to explain outcomes other than deviance then requires the location of some other feature of the situation that could permit such an occurrence. We have approached the problem in an entirely different way.

Most studies that look at the consequences of labeling for the individual's self-concept take as subjects persons who _have_ engaged in behavior which generally is socially identified as "deviant." Finding that these individuals have not taken on a deviant self-identification, despite the negative societal reaction which that form of behavior generally elicits, the failure to

regard themselves as "deviants" is typically explained in terms of neutralization of negative feelings--the neutralization of feelings such as guilt which takes place after they have performed the objectionable act. Individuals who express no feelings that they have been involved in deviance or that they have done something for which they should feel guilty are said to have neutralized the "deviance" of their behavior by conceptualizing the act as "not wrong," or to have neutralized the social norms regarding the act by placing responsibility for it on others or justifying their performance of it.[23] These studies show that the individual, having already been engaged in illegal or unapproved behavior, is able to insulate himself from the stigmatizing consequence, to shield himself from a deviant self-conception in the face of his norm violation. They show, indirectly, that the process of labeling is effective in defining certain behaviors as deviant and that it has the potential for creating in the offending individual a deviant self-concept. In that approach, attention is centered on the individual's self-concept but the focus is on the feelings of the individual after the fact of norm-violating or law-breaking. This limits the opportunity to learn about the feelings of individuals in contemplation of the act, or to examine self-concepts in the course of the changing situations as they are experienced and thereby explicate the involvement of the individual in the process of labeling certain actions as "deviance."

By taking as subjects persons whose path could lead to "deviance"--i.e., to deviant identifications and further deviant

behavior associated with that self-identification--and by looking at their on-going experiences as labelees, our investigation moved the focus directly to the process of labeling. This was the importance of selecting counselees as research subjects. They constituted a set of individuals who are being processed by a social group whose actions produce labels (and there is a further deviance, e.g., skipping out on creditors, to which they might move), but they have not continued to further acts of disapproved behavior that may later bring feelings of guilt. This strategy was a means of looking into the in-progress experience of research subjects and it permitted a clear view of people _being_ labelled and making responses to labeling.

From this perspective we saw debtors acting in their situation in the way Mead saw human beings as actors in society. They were influenced and constrained by social structure but their actions were of their own construction. They gave meaning to events in their lives and worked out ways for coping with problems as they defined them and for adapting to new situations as they emerged. Social control imposed on them gave direction to their behavior, but it was also guided by their own internalized pressures toward conformance with social norms. Human choice had a part in their interaction with other social units. Their self-conceptions were changed with shifting conditions and relationships, but self-conceptions also entered into their mode of response to structural impact. At the very least, this study has contributed to taking the deterministic cast from labeling theory by its reminder that

other than deviant outcomes can ensue from the labeling process, but more, by its insistence that in considering the process and consequences of deviance labeling, it must present a different view of the nature of man.

Some Reflections and Suggestions for Further Study

Several interesting and useful parallels may be found between this study of labeling and labelee responses in terms of debt and some other pieces of research which have similar concerns but deal with other types of deviance; I refer in particular to Davis (1971) on prostitution, and Manning (1970) and Henslin (1971) on abortion.[24] Looking at these studies comparatively brings to light some areas of ambiguity in the labeling perspective which deserve attention. I will briefly summarize the relevant aspects of the present work and those named above, and then discuss a few of the similarities and discrepancies that appear in studies such as these.

Each of the four studies mentioned treats deviancy as a temporally patterned phenomenon, i.e., as on-going behavior divisible into stages or phases of deviance. Henslin identifies three phases: the first or pre-abortion phase includes the dilemma--where the girl finds herself pregnant, realizes the complications this presents, and considers the alternatives, and it shows her making the decision for abortion, neutralizing the social disapproval of the act she has decided upon (enabling her to go through with it), and searching for the abortionist; the second phase, abortion, is

not analyzed; the post-abortion phase shows how abortionees are able to avoid deviant self-conceptions and also describes cases in which "guilt-deviance neutralization" failed. Manning's work focuses on the essential feature of each of four stages: first the initial defining process--defining signs as pregnancy; second, constructing alternatives--deciding what to do; third, locating the abortionist; and finally, the resolution of the search, which looks at some after-effects in terms of abortionees' feelings of guilt and deviance. Davis looks at changing motivations of prostitutes and traces the course from promiscuity to the role of prostitute describing three stages in a prostitution career: one, the drift from promiscuity to the first act of prostitution; two, the transitional stage, between the first act and "full-time deviance"; three, professionalization, where there is "unequivocal perception of a deviant self." My treatment of deviant debtors has elements of similarity to each of these, but differs from all of them in that it focuses in the last phase on the debtor who did not persist in deviance. It sketches out three phases of experience and shows the individual in three different roles: he begins as a "normal" consumer debtor and, in the first phase, we describe his drift to over-indebtedness; in the second, as a defaulter, he is being sanctioned and labelled and in this period he defines his debt as a problem and tries to cope with it--this phase ends as he considers alternatives for resolving the dilemma and decides upon a solution; phase three looks at the debtor in the role of help-seeker

(counselee), making an adjustment on the basis of an acceptable, rather than a deviant, role.

Another similarity in these, and most other, labeling studies is their use (implicitly or explicitly) of the concepts of primary and secondary deviation and the related notions of deviant self-concept and deviance neutralization, but there is not as much consistency in the way these concepts are employed. It is in these areas that labeling theory could be sharpened and made more useful for this kind of research. I will draw a few examples from the studies we have been looking at to suggest some perplexing issues and places where "loose" concepts seem to show up. In my work I made the assumption that using credit (simply having debts) is "normal" behavior and when default occurs and is labelled it is situational or primary deviance. When the defaulter comes to decide on a mode of adjustment he can go either way, to a new career in an acceptable line of behavior (e.g., paying debts through a counseling agency) or he can go on to "further deviance," which I have suggested could be either skipping out on creditors or not paying through bankruptcy. These actions I have viewed as behaviors of secondary deviance. In a manner of speaking, I operationalized "_not_ secondary deviance" in terms of debtors' choice of counseling over bankruptcy, and then I considered the choice they made in terms of neutralizing the wrongness of having gotten over-indebted in the first place. Thus over-indebtedness is the primary deviance and that is the deviance which could be neutralized thereby preventing negative self-views which could lead to further deviance

(i.e., not paying). I regarded "self-blame" (for over-indebtedness, the sanctioned action) as the feeling debtors would express if they had a deviant self-image. This is equivalent to expressions of "guilt" about deviant actions which are taken as indications of negative self-feelings by Henslin and Manning, but they make no mention of the possibility of continuing in deviance if that guilt is not neutralized.

Manning does not refer specifically to secondary deviance but he makes the assumption that premarital pregnancies are the result of primary deviation. He reasons that in a college context sex is an everyday affair (like lunch, it happens routinely), and thus requires no explanation as deviance. This corresponds to my view--sex, like debt, is not wrong, per se, but can become "wrong" under certain conditions. His abortionees appear as "potential" holders of a deviant self-concept only after they have decided on abortion and taken that course of action; then he asserts that they did not define themselves as being deviant or view themselves as having a deviant character--"there was very little guilt feeling," and "none of them expressed the feeling that they were 'deviants' after the abortion." He indicates that they had neutralized the effect of the abortion and felt that it was the only expedient thing to do under the circumstances. (This suggests a weakness in viewing bankruptcy as an act of secondary deviance since bankruptcy is also the most expedient action in certain circumstances, despite its stigma.)

The Henslin study concentrates primarily on neutralization and it enters into his analysis in two ways. Like Manning, he regards illegal abortion as primary deviation: "Because of situational factors of a temporary nature they [persons who are conforming members of society] enter into a transitory deviance." He explains how they come to violate normative proscriptions: "It is during this pre-abortion phase that neutralization techniques begin to come into play, helping the girl to make her decision final, to go through with the abortion, and setting the stage for adjustment to her act." The neutralization concept is also used, as in Manning's study, in the post-abortion stage; Henslin's respondents demonstrated that they had defined their act such that deviance and guilt were neutralized, in spite of their violation of societal proscriptions, and in many cases, their own internalized norms. He adds mention, however, of some subjects' inability to neutralize post-abortion deviance and guilt feelings. Henslin identifies successful neutralization in such observations as these: "express no feeling that they have been involved in deviance or that they have done something for which they should feel guilt" and "express happiness and gratitude about the act of abortion." Failure of neutralization is indicated in abortionees' expression of questions, doubts, self-searching, and self-recriminations that continued to haunt them. The Davis study follows the career of girls to prostitution, examining the socialization process in deviance, and most attention was given to the professionalized prostitute. The self-concept is considered in terms of the motivations expressed by

the subjects; deviant self-concepts were revealed by remarks which indicated accommodation to their deviant status, e.g., defining the "square" life as impossible and extolling the rewards of prostitution.

Now I would like to raise some questions that are suggested in the comparison of these four studies. This is not necessarily a criticism of any of this work; I simply point to some implications that I find perplexing and ask, in effect, Could it have been otherwise? And what, then, would have been the result? My discussion deals primarily with issues centering on the notions of primary and secondary deviance, the deviant self-concept, and deviance neutralization. The first question has to do with neutralization; what is neutralized, when, and with what effect. The notion, introduced by Sykes and Matza (in connection with juvenile delinquency), that "rationalization" may render social controls inoperative before a deviant act as well as normalize deviant status and protect the individual's self-concept after it, has been employed as an explanation for going through with acts such as abortion and for explaining the actor's "OK feelings" after a deviant act. Henslin explicitly used it both ways; Manning implied pre-abortion neutralization in showing that the girls saw abortion as the only "expedient" alternative--i.e., justified--and also stated that this was how post-abortion girls prevented negative self-concepts. I point to the use of "accounts" (excuses which neutralize) as having the effect of preventing deviant self-feelings before a contemplated deviant act and thereby keeping the individual

within the bounds of acceptable behavior as he finds adjustment to labeling. Most often it is post-act guilt that is neutralized, but the effect of neutralizing is also impacted on social control of which the labeling process is an integral feature. Therefore unmitigated negative feelings prior to an act could enhance labeling just as neutralizing before hinders it; "misgivings" about deviance reveal internalized norms.

Part of the perplexity of this issue has to do with the assumptions of the researcher, e.g., whether the act in question is taken as primary deviance. Could it then be regarded as transitional behavior that might lead to secondary deviance? It also touches on some very difficult methodological questions, such as how he "taps" secondary deviance or deviant self-conception, what "indicates" to him the individual's negative self-regard, or, conversely, his successful avoidance of a deviant self.[25] This leads to questions left unanswered by Lemert; he only suggested that "objective evidences of this change [to secondary deviance] will be found in symbolic appurtenances of the new role [clothes, speech, mannerisms, etc.] which in some cases serve as symbolic cues to professionalization." There is also the delicate issue of the relationship between deviant self-concept and a continued pattern of deviance (behavior), one we cannot address here except to say that Lemert appears to imply that the subjective alteration (self-concept) precedes the behavioral manifestations of secondary deviance in making the distinction between primary deviance (discrete or initial deviating acts, or the sheer act of rule violation)

and secondary deviance, deviance in which there has been a secondary elaboration of such rule violation in terms of both self-concept and broader social ramifications. In depends in part on whether we are thinking in terms of the individual or the social level, but it is possible to "read in" different meanings to Lemert's remarks. Since we always deal with deviance in temporal terms, however, there should be some attention given to the tremendously difficult question of the order of events in developing deviance. This is not to imply that "causes" are of major concern; the problem I have in mind is whether we should look at the person's behavior or his "expressions" (of subjective feelings) in trying to discover whether he is approaching secondary deviance or deciding among alternative adjustments on the basis of a deviant self-concept or a neutralized conception of social definitions.

Discussing in the abstract when and what, exactly, is neutralized, as we are here, it seems unimportant; it becomes significant, however, when we try to fit this notion into the context of a temporally patterned deviance and make use of the idea in connection with processes like labeling and the development of secondary deviance that have a spiralling, reciprocal character. When we talk about ordinary actions like credit buying and sexual intercourse and how, under certain circumstances, such "everyday" behavior can become a matter of social deviation, it is important to be more certain about whether it is the individual's view of himself or the social definition that is affected, whether it occurs before or after an act has been accomplished, and what would happen

had neutralization not succeeded. Since the concepts we have to work with are not precise, much of what we see in deviance labeling situations is open to interpretation. This is a moot point--the difficulty I mean to describe is perhaps better displayed in a logical argument: We see that studies use neutralization as a means of neutralizing guilt. Guilt is the equivalent of "self-blame." (Henslin, in another study, speaks of actors blaming themselves, i.e., feeling guilty, for their part in some aspect of a death by suicide.)[26] Self-blame indicates the individual's internalization of social norms, of social control. (This is a Meadian notion, society in the individual, well explained by Lindesmith and Strauss.)[27] Sykes and Matza hold that neutralization can have the effect of lessening social control, weakening internal and external demands for conformity.[28] Failure to neutralize negative feelings leaves the individual with guilt or self-blame; if self-blame shows internalized social control at work and enhancing social controls, then failure to neutralize self-blame should increase or leave unaffected the force of social control. And social control is what we look at as the source of the labeling and sanctioning that is somehow behind the development of a deviant self-concept, so would not failure to neutralize self-blame (i.e., take the blame for "being deviant," as society tells the individual he ought to be regarded) suggest the individual's negative self-view and the possibility of his continued deviance? Say also that we know post-deviance guilt is removed by neutralizing it but in some cases this can fail. If the deviance in question is seen as

"primary," what could possibly happen thereafter? Henslin suggests that the individual goes on carrying a tremendous guilt burden, but is it possible that these strong feelings of having done wrong by society's standards might lead him to feeling so "deviant" that he goes on to other or further deviance? If so, in the case of abortionees, what kind of behavior might it lead to? Noting that Henslin, unlike Manning, did not limit his concern to unwed pregnant girls, perhaps extreme and prolonged guilt could lead to mental illness; if abortion is primary deviance that stems from sex as an everyday affair, could this be viewed as the sort of promiscuity that Davis shows to be the beginning of a "drift" which goes on to an act of prostitution and possibly a career of deviance? If acceptance of social definitions shown in guilt and self-blame can enhance the impact of social forces toward conformity, preventing a wrong-doing, how much "acceptance" of social definition does it take to bring the individual to view himself as a deviant and what is he likely to do if that happens? These are the kinds of puzzles that even good labeling research has left us to work out.

Without further polemic, I think that the point has been made that Lemert has provided some valuable conceptual tools but they are not yet in a state where we can utilize them to the full. My suggestion for further study in the area of deviance labeling would be to strongly urge that more attention be given to what we have done and seeing how it might be employed as the basis for improvement, rather than rediscovering that deviance is in the eye of the beholder, etc. I also urge more interest in forms of

behavior other than those we conventionally regard as "deviance," for they seem to offer more opportunity for getting at the things in the labeling perspective that we have found perplexing and ambiguous. In so doing, it seems to me that investigations should "go back to basics" and look at the ideas suggested by symbolic interactionism, rather than taking specific leads from the narrower body of thought represented by labeling "theory." And researchers using a symbolic interactionist frame of reference in studying behavior related to deviance and control should be encouraged to build more directly on previous theoretical developments so that a "line of research" will emerge from our work from which we can gain insight and sharpen our conceptual tools.

I should like to add that there are almost unlimited possibilities for useful and needed studies having to do with consumer indebtedness, for this area has hardly been touched and it is becoming an increasingly relevant part of social life in the modern world. Bankruptcy, for example, has been heavily researched but as a social problem and not as a concern for theoretical social psychology. It could be looked at from a labeling perspective, probably as the kind of problem Schur invites our attention to in discussing deviance "outcomes" of the labeling process; he points out that labeling also has societal consequences and bankruptcy could be examined in terms of the economic and social impact on society at large of attempts to attach and resist negative definitions of bankruptcy at the organizational level.[29] In our chapters on credit granting and collecting personal debt we touched on

several points which could be given a closer look; the way in which organizations compete and the impact they have on consumers in attempting to carve out segments of population as their preferred clientele, for instance. Recent developments in the enforcement of economic crime suggest areas to look at in terms of "organizational deviance" and attempts to control it. Let me point to the possibilities there are for sociological research in this area by quoting part of a recent newspaper article (headed, Consumer Agency Means Business), noting particularly the reference in the last paragraph to criminally enforceable violations of the Consumer Protection Act by one company against another.

> The country's consumer protection office has a new name--The Consumer Fraud and Economic Crime Division--to go with what officials call a tough new stance against economic crime. The agency, a division of the district attorney's office, is taking alleged con men to court on criminal charges. In the past, civil remedies were used. The director of the division said civil injunctions against violators --usually in the form of promises from violators that they wouldn't break consumer laws again--just weren't enough in many cases. The men behind the new emphasis on criminal prosecutions say the subjects of civil actions were leaving town or filing bankruptcy in attempts to evade responsibility for their acts. "A very common occurrence in economic crime is to fleece the public and when the water gets hot, split." The director said that in the past economic criminals were treated much differently than persons committing crimes such as robbery and burglary. The people responsible for the economic crimes committed were viewed as fine upstanding citizens . . . [but now they will be prosecuted to the fullest ability] . . . and in many of the cases pending, the multiple defendants face multiple charges.
>
> With the new stand the agency still retains its old functions, standing as a liaison between the citizen with a beef and the legitimate businessman. In fact, the director points out, the commercial field, too, may need protection. His office, for example, is now investigating schemes in which out-of-state suppliers call local purchasing agents and attempt to bribe them into ordering unneeded materials for which the

> company employing the purchasing agent may get stuck. "We do mean business," said the director. And the agency plans to increase the scope of activities coming under the Consumer Protection Act that they have been involved in. An estimated 40,000 complaints and inquiries will be handled this year.[30]

With the advent of new legislation that recognizes the consumer as a social element and recognizes the rights of consumers in their relationships with organizations of commerce and finance, a whole new field of inquiry has been opened to investigation. It has special importance for social psychologists committed to the Meadian perspective because it demands acknowledgment that man as a social actor is both enmeshed in society and free from society. He can be changed by social structure but he can also bring change to his social environment.

FOOTNOTES

[1]Herbert Blumer, 1969, p. 70. Blumer uses the term "joint action" in place of Mead's term "social act." It has equivalent meaning.

[2]Ibid., p. 85.

[3]Ibid., p. 72.

[4]Ibid., p. 75.

[5]"Social groups create deviance by making the rules whose infraction constitutes deviance, and by applying those rules to particular people and labeling them. . . . Deviance is not a quality of the act the person commits, but rather a consequence of the application by others of rules and sanctions to an 'offender.'" Howard Becker, 1963, p. 9.

[6]As explained earlier, I credit Rock with having first applied Lemert's societal reaction perspective to the analysis of debt collection processes.

[7]Peter K. Manning, 1975, p. 8.

[8]Edwin Lemert, 1972, pp. 16-17.

[9]Horacio Fabrega and Peter Manning, 1972, p. 93.

[10]Critical commentaries may be found in the following works: Fabrega and Manning, 1972; Gibbs, 1966, 1972; Schur, 1969, 1971; Lemert, 1967; Schervish, 1973; Davis, 1972; Hagan, 1973a; Liazos, 1972. A brief review of recent criticisms appears in Joseph Rogers and M. D. Buffalo, 1974, pp. 101-102.

[11]See Paul Rock, 1973, p. 266, on the public view of default. Another indication is in a study reported as part of a story on consumer debt in _Time_: "In a survey of consumers, pollsters for General Mills found that 60% of American families considered 'not being in debt' an important personal value; 45% identified 'being completely out of debt' as a major goal for the future. And how did they face the fact that they might well never reach that goal? By redefining 'debt.' To many, the word did not mean simply owing money but falling behind in the payments." "Merchants of Debt," _Time_, February 28, 1977, p. 38.

[12]Howard Becker, 1963, p. 9.

[13]Liazos gives examples showing that acts of a simple and dramatic predatory nature occupy the attention of most writers on deviance, that labeling research is overwhelmingly focused on "nuts, sluts, and preverts." He observes that they purport to show that such individuals are "essentially no different" but the use of "deviant" to refer to the people under consideration indicates the feeling that they are indeed different. Alexander Liazos, 1972, pp. 104-106.

[14]This is consistent with Lemert's view: "A career denotes a course to be run, but the delineation of fixed sequences of stages through which persons move from less to more serious deviance is difficult to reconcile with an interactional theory. . . . Concepts of drift, contingency and risk [are] far more meaningful in deviance than inevitability or linear progress." Edwin Lemert, 1972, p. 79.

[15]Alfred Lindesmith, Anselm Strauss, and Norman Denzin, 1975, p. 464.

[16]See Robert A. Stebbens, 1970. His view differs considerably from that of Lindesmith and Strauss.

[17]Peter Manning, 1973, p. 124.

[18]Peter Manning, 1975, p. 7.

[19]Edwin Lemert, 1972, p. 16.

[20]Edwin Lemert, 1951, p. 76.

[21]Ibid. (See p. 77.)

[22]We are making the claim that secondary deviance was not precluded as an artifact of this research. This discussion is directed to showing that organizations for debt control do tag and treat as norm violators debtors who fail to pay. Persons who do not pay, deliberately, as in bankruptcy or skipping on creditors, are knowingly engaging in behavior defined by society as deviant. The kind of action-reaction process that can lead to deviant identifications and roles does take place between defaulters and controlling agencies and some defaulters do become secondary deviants.

This is a major theme in Rock's work, i.e., the prevention of the emergence of secondary deviation which is built into the character of debt collection, according to his claim. We take a departure from his view on this point, however. (See footnote 21 to Chapter 4.) We make the assumption that in America, where voluntary bankruptcy is available and debtors have an option, they may use bankruptcy as a device for not paying; bankruptcy is assumed in this work to be in many cases an act of secondary deviance.

Some support for this assumption may be found in the attitudes of bankrupted persons as reported by the Brookings study. In interviews with 400 debtors two years after bankruptcy, nearly half (43%) of the responses to inquiries as to their feelings about the experience were favorable or neutral, e.g., "good," "satisfied," "OK but can't get credit," or "doesn't bother me." Only 28% expressed negative feelings, e.g., "lost self respect," "feel bad," "ashamed, embarrassed," "stigma." Some of the positive expressions may, of course, reflect respondents' neutralization of bad feelings about the experience but this would not negate the idea that bankruptcy may be viewed as a deviant action. See David Stanley and Marjorie Girth, 1971, p. 68.

I might add that public labeling is often regarded as a necessary feature of the debtor's acceptance of a deviant role; public labeling does occur with bankruptcy. The names and financial conditions of debtors are put in public record, published in newspapers, and the information is circulated to credit bureaus and businesses. It is made known to credit granters who frequently refuse credit to bankrupted persons, and this may be considered stigmatizing.

[23]See Gresham Sykes and David Matza, 1957, on neutralization techniques. Later in this chapter we discuss the use of these concepts in the research of Henslin and Manning on abortion.

[24]The studies under consideration are these: Peter Manning, 1971 ("Fixing What You Feared: Notes on the Campus Abortion Search"); James Henslin, 1971 ("Criminal Abortion: Making the Decision and Neutralizing the Act"); Nanette Davis, 1971 ("The Prostitute: Developing a Deviant Identity").

[25]All of these works relied on interviews for their data and in the foregoing summaries of them I have pointed to the remarks of respondents which were used as indications of feelings suggestive of negative self-images or definitions and redefined (neutralized) conceptions of self and social actions. Davis relied on expressed motivations for actions. I employed both verbally expressed feelings and, to a lesser extent, questionnaire responses. Unlike my fellow writers, I took the act of declaring bankruptcy as an indirect indication of secondary deviance in making the assumption that bankruptcy is the action a deviant debtor would take and that not paying (and bankruptcy is a way in which that can be observed) is an act of secondary deviance. In a sense I have used an observable behavior as an indicator.

[26]See James Henslin, 1970.

[27]See Alfred Lindesmith and Anselm Strauss, 1968, pp. 324-25.

[28]See Gresham Sykes and David Matza, 1957, p. 666.

[29]See Edwin Schur, 1971, p. 11.

[30]Lon Teter, "Consumer Agency Means Business," _Wichita Eagle_, April 28, 1977, p. 8c.

APPENDIX

SURVEY OF ATTITUDES ABOUT CONSUMER CREDIT

PART I. The following statements suggest some of the different ways that people might feel about having debts or owing money. Please decide if you agree or disagree with each of these statements.

	CHECK ONE ON EACH LINE		
	Agree	Disagree	Undecided
1. One should enjoy the good life now.	___	___	___
2. There is too much consumer credit for the public good.	___	___	___
3. My philosophy is buy now, pay later.	___	___	___
4. Bankruptcy should be used only as a last resort.	___	___	___
5. The average debtor is a perfectly honest person about paying his debts.	___	___	___
6. The seller selects the people he gives credit to, so if he thinks your credit is OK then it's his fault if you can't make the payments.	___	___	___
7. You are entitled to buy as much as you can on credit because credit buying is a right.	___	___	___
8. It's so easy to buy on credit that the average family is being pushed into debt.	___	___	___
9. A great deal of debt is needed before bankruptcy is justified.	___	___	___
10. Debt is sinful.	___	___	___
11. If there is any possible way to solve his financial problems, a man should try to pay off what he owes.	___	___	___
12. A person should save up his money and then buy what he wants later.	___	___	___
13. Credit buying is fine when people keep their monthly payments within their income.	___	___	___

PART II. Imagine that you have a friend, Joe, who has a wife and family and earns average hourly wages at a local plant. Things aren't going so well for them lately and, for many reasons, they haven't been able to keep paid up on their bills. How do you think Joe feels about the financial trouble he has gotten into? Would you say that he believes he is to blame or is not to blame for this problem? Put yourself in Joe's shoes and decide if you agree or disagree with each of the following statements.

	CHECK ONE ON EACH LINE	
	Agree	Disagree
1. Joe feels the odds are against guys like him so he believes he is not to blame for his financial troubles.	___	___
2. He thinks he is to blame for his financial trouble since he should have known better than to get so far in debt.	___	___
3. He feels he is responsible for his trouble because he is too easily talked into buying things on time.	___	___
4. Joe thinks he is to blame because he should have saved up some money to cover unforeseen events.	___	___
5. He believes his creditors are to blame for his troubles because they attached his wages.	___	___
6. He feels salesmen are to blame for his financial troubles because they sold him more on credit than he could afford.	___	___
7. He thinks he's to blame because he should have kept his family's buying limited to necessities while he got his bills paid up.	___	___
8. Chances are that Joe feels to blame for his problem because he couldn't wait until he had the money to buy things.	___	___
9. Joe feels he is to blame for his financial trouble because he should've saved for a rainy day.	___	___
10. He feels he is not to blame for his trouble because he had bad luck.	___	___
11. Joe thinks his creditors pressed him too hard for payment so they are to blame for his financial trouble.	___	___
12. He believes he is to blame for his problem because he just can't seem to manage his money.	___	___
13. In general, other things and not Joe are mostly to blame for the trouble he is in.	___	___

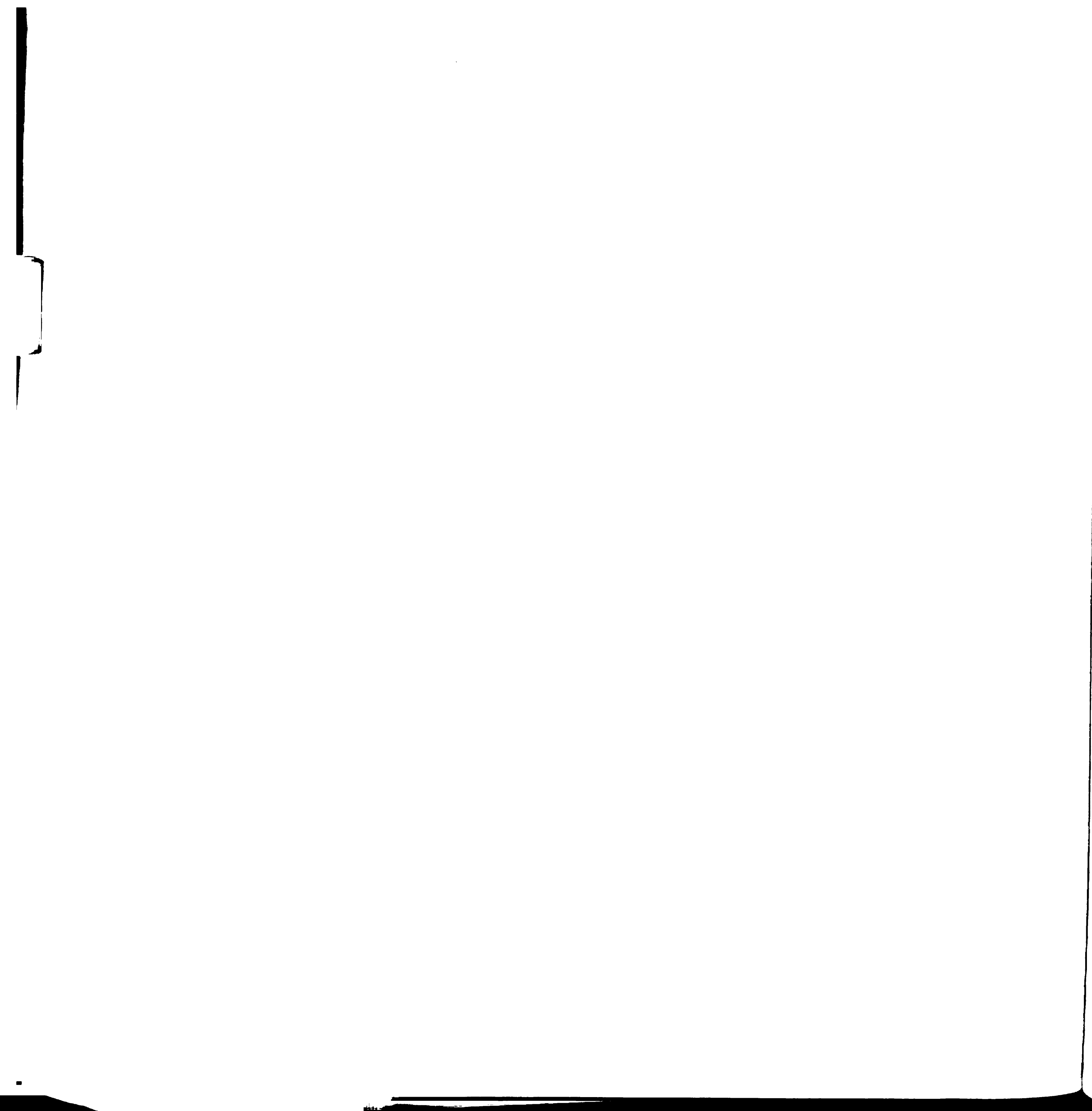
WOULD YOU BE INTERESTED IN SHARING WITH ME ANY EXPERIENCES YOU MAY HAVE HAD IN CONNECTION WITH YOUR OWN USE OF CREDIT? It would be very helpful to consider your views in this study and anything that you let me know would be regarded as completely confidential -- in fact you don't even need to give your name. If you would be willing to assist me in this way, please indicate how we could get in touch with one another (either by phone or in person).

Write your phone number or address below if you'd like to have me contact you. If you prefer, you can call me -- my number is 349-1289.

Yes, call me at telephone number ___________

You may talk with me (my family) at this address: ______________________________

I am sincerely grateful to you for your help on this project. If you have any suggestions or comments, please write them on the other side of this questionnaire.



WHY

CREDIT COUNSELING CENTERS, INC. was created as a workable social answer to the socio-economic problem of family financial distress due to indebtedness and poor money management.

THIS NON-PROFIT ORGANIZATION became a reality in 1968 after more than two years of planning and development. The counselors and staff have been carefully trained and work under experienced supervision and administration. C.C.C. is designed to provide professional counseling to families needing guidance in money management, in family budgeting, and in the wise use of credit. In acute cases, where over-extension of indebtedness is the major problem, the agency will attempt to work out a proper program of orderly debt repayment. In so doing, the agency recognizes both the needs of the family and the requirements of creditors and, when necessary, utilizes other public and private resources.

THE FIVE UNIQUE ASPECTS of this community service are:

1. **It has as its sole intent the rehabilitation of over-extended families.**
2. **It uses broad educational and research programs in its rehabilitating efforts.**
3. **It is supported by community sponsorship.**
4. **It is NOT oriented primarily toward the credit industry.**
5. **Its fees are NOMINAL.**

WHAT

THERE ARE many advantages to debtors, families, creditors and the community. A referral by a creditor, employer, social agency or union, can set the stage for helping a person whose case seems hopeless. Such a referral saves time, money, staff effort, and helps reduce losses due to bankruptcy. A debtor who is referred is often relieved of worry and pressure from garnishments, the possibility of losing his job, home or personal property. In many cases, his home life and marriage may be preserved, his credit rating restored or improved. A referral to this service enhances your image as a financial friend.

A DEBTOR should be referred to C.C.C. whenever it is apparent that he is overextended or a case of financial mismanagement exists. Some of the symptoms could be delinquency, marital problems, or the threat of bankruptcy.

CREDIT COUNSELING CENTERS, INC. is a non-profit organization concerned with the financial problems of the family. The fee for the debt management service is determined by the counselor in accordance with the debtor's ability but will not in any case exceed $3.55 per week. The counseling service is free.

C.C.C. IS A NON-PROFIT community supported agency headed by leaders in business, industry, education, religion, labor, and social work.

The services of Credit Counseling Centers are financed through a combination of fees from our clients and voluntary contributions from the business community. Most of the major credit granting organizations in this state participate in our funding program. Some make donations to C.C.C. by direct payment. Others make contributions by permitting C.C.C. to retain a small percentage (never more than 7%) of the amounts paid to them by C.C.C. for its clients. However, C.C.C.'s clients are always given full credit for amounts paid to creditors on their behalf

HOW

AN APPOINTMENT for an interview should be made first by phone. You may phone C.C.C. on behalf of a person, or the individual himself may call. Persons should bring the following for the interview:

1. **Spouse, if married.**
2. **All bills and payment books.**
3. **Last four pay stubs.**

THE FIRST INTERVIEW lasts about an hour and a half, during which time the individual's financial position is analyzed. Many persons will find all the help they need during the initial interview without subsequent counseling.

WHEN A DEBT MANAGEMENT PROGRAM is developed, the client signs an agreement that he will not assume additional credit during the period of the program, and that he approves the debt repayment plan as outlined. Frequently, the key to success has been the payroll deduction arrangement. Thus the most crucial period of adjustment for the creditor and debtor occurs during the first 45 days. Creditors are requested to cooperate and wait during this time for their first payment. The debtor's family will have to adjust to a new budget. Cooperation among all parties is of the utmost importance to assure full success of the program.

CREDITORS ARE consulted by phone or mail when the C.C.C. counselor has developed a proposed plan of debt repayment. The family remains on the plan until its debts have been reduced to a level within its own income and circumstances. The counselor will generally then suggest that the family handle its own finances. Any time the program is interrupted or discontinued, the counselor will notify the creditors.

THE DEBTOR is kept abreast of his progress by statements which C.C.C. sends quarterly. Statements indicate all amounts paid in, amounts paid out and fees charged. A creditor may call the C.C.C. branch at any time to obtain current financial information regarding the client.

Informational pamphlet distributed to the public by Credit Counseling Centers, Inc., of Michigan. (See footnote 84 to Chapter 3.)

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