

The Advantages and Disadvantages of Credit Card in the U.S

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I Introduction

I was really surprised when my English class professor, Robert Spivak, who is American, said: “In the U.S, credit cards are sometimes sent to users arbitrarily and once they activate them, it will be available.” This was the trigger that made me become attracted to the credit card culture in the U.S. It is well-known that Americans like to use credit cards. Credit cards are convenient and easy to use because we do not need to bring much cash. A long time had passed since credit cards were invented. The number of credit card companies is increasing and the competition of getting new customers is getting heated. The companies become likely to alleviate the requirement to get credit cards (Stephey, 16). On the other hand, the number of bankruptcy is also getting higher because of the said alleviation (Hoffman, Joneil, Hornig). Given that many people, including Americans, know that there is a risk when using credit cards, why do Americans still continue to use it? To find that reason and the typical attitudes towards credit cards, I conducted a survey on consumer behavior about credit cards.

II Survey Description

1 Method

I made questionnaires and gave them to the interviewees. I found my interviewee, at Palo Alto and Stanford Shopping Center.

2 Results

Interviewees are 21 (13 male, 8 female) who ranged in age from 16 to 60 years old. Five of 21 interviewees are the students who have no annual income. Seventy one percent of them have credit card(s) and 67% of them have debit card(s). The average credit cardholder has 1.93 credit cards according to my survey.

III What Is a Credit Card?

1 History and System

Credit cards are sometimes referred to as “pay-later cards” (Bolt,Wilko, 15). By using it, a customer can pay the bills later. Users regard the trait which allows users to enjoy the duration when you should not pay immediately without interest as the most important function of credit cards (Scott, Oz, Joanna, 10). Also, credit cards allow customers to pay the bills which exceed their bank account. Through paying credit card’s bills, users can acquire the rewards, such as points, which make customers get prizes if the points reach a certain amount, frequent flyer miles.

2 The Other Payment System: Debit Card and Prepaid Card

Debit cards and prepaid cards have similar traits to credit cards. These are the substitutes for cash. Debit cards are referred to as “Pay-now cards” (Bolt,Wilko, 15). When a user uses it to pay the bills, he or she withdraws money from his or her bank

account in a few days or immediately. Prepaid cards can be called “Pay-before cards” (Bolt,Wilko, 15). To use them as a way to pay money, users need to deposit money in them. In the U.S, debit cards are usually affiliated with the international credit card brands, such as VISA and MasterCard. Therefore, the users can use them at stores where credit cards are mostly available (Scott, Oz, Joanna,10).

Debit cards and prepaid cards limit the amount of money that customers use because the bills of credit cards never exceed the money carried in the user's pocket. Some people cannot restrain the use of credit cards and pay much money for the credit card’s bills. Therefore, some people hesitate to have credit cards in order to do self-control. In fact, according to the author’s survey, 67% of people who do not have a credit card dislike that risk and the high interest rate of credit card. For those reasons, the number of people who have debit cards is more than that of people who have credit cards. In 2009, (Kevin, Erik, Scott, Michael, 13).

Also, Americans use debit cards more frequently than credit cards (Kevin, Erik, Scott, Michael, 13). According to the author’s survey, it seems that Americans tend to use debit cards more frequently in the shops where the bills are relatively lower, such as coffee shops and convenience stores.

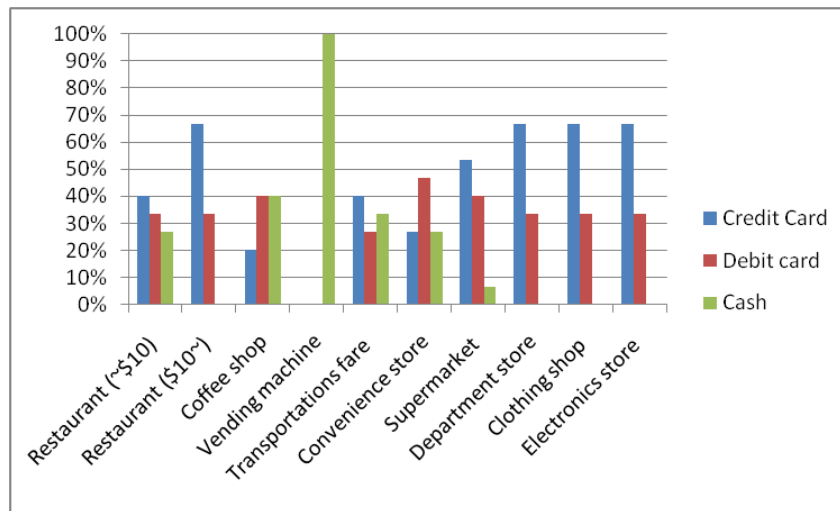


Figure 1: Used means of payment in the certain occasions. Source: Author’s survey

3 Why Are Credit Cards Better Than Debit Cards?

Even though debit cards are used more frequently and possessed more, credit cards are still the most popular alternative way of payment in terms of the amount of purchase volume with \$2.1 trillion, compared with \$1.5 trillion of debit cards (HSN Consultants Inc). As I mentioned, credit cards have many traits which the other alternative payment systems do not have, such as reward programs and protection for the case when a user suffers fraud or some problems with goods or shops. Besides, it is likely that credit cards give users privilege and status. For example, having American Express cards, which have Roman centurion on the cards, means a holder’s success, independence and rich personality even though the opportunity of using American Express cards is less than that of the other credit cards (Sinek, 26). I surveyed the American preference about credit cards’ traits. The most preferable traits are the high

points or flyer mile given by using credit cards and the high availability.

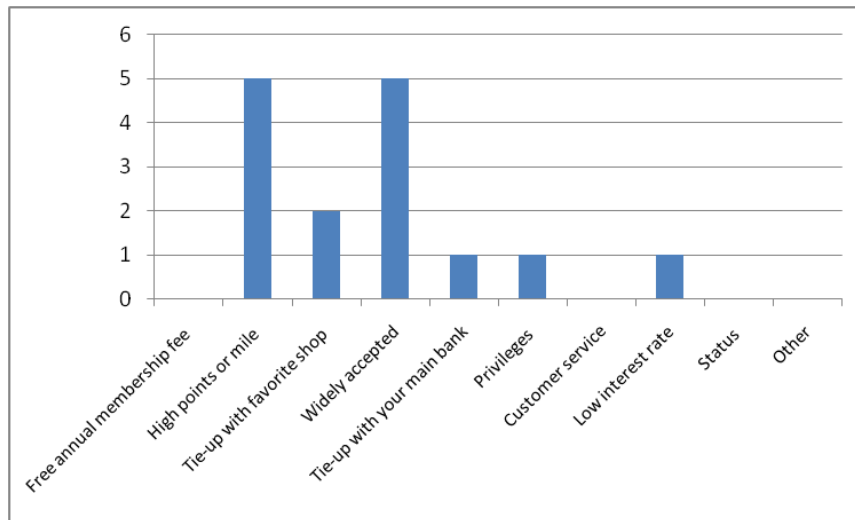


Figure 2:The valued credit cards' traits. Source: Author's survey

In general, credit cards allow users to get more points and flyer miles (Cohn, 68).

There are some shops that accept only credit cards. Moreover, hotels and car-rental companies sometimes require the indication of credit cards. Therefore, credit cards are more widely accepted than debit cards. For these exclusive traits, credit cards can attract many Americans.

IV Current Condition of Credit Card in U.S.

While it is said that credit cards are the most popular payment system in U.S, the percentage of ownership in U.S. is relatively modest. In 2010, 72.2% of Americans have credit cards, compared with 90% of Japanese (Kevin, Erik, Scott, Michael, 13). Also, Americans each have 3.7 cards in average, compared with 3.9 cards of Japanese (Kevin, Erik, Scott, Michael, 13). It seems that Americans' attitudes toward credit cards are

modest so far. However, the consumer behavior as for credit cards is totally different from other countries.

Americans use credit cards much more often, compared with the condition in Japan. According to my research, credit cards are used as the primary payment means in many occasions in U.S. Though the consumer behavior of credit cards in U.S is similar to that of Japan as for the ownership, an American has above 2 times more opportunities than Japan.

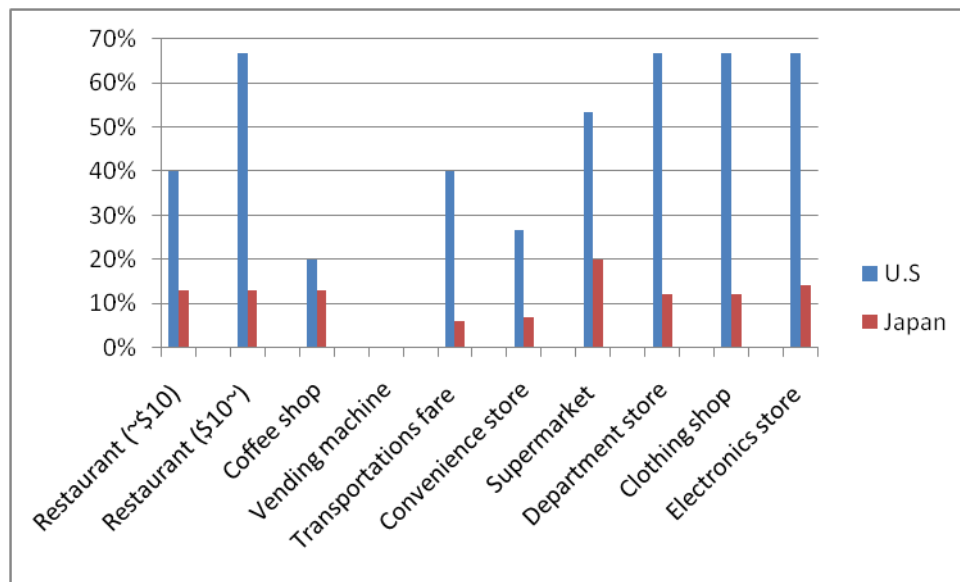


Figure 3: Author's survey (U.S), JCB Credit Card Survey 2010(Japan)

In the U.S, spending to credit cards account for 25% of consumer spending, while Japanese use credit card for 8% of their spending (Yuka, 2006).

2 What is the problem with using credit cards?

Credit cards are very convenient but risky. The most serious problem of credit

cards is debt problem. In the U.S, the amount of credit cards debt is constantly increasing and it was tripled since 1989. In 2007, the total of Americans' credit cards debt is over a trillion dollars. Moreover, the half of Americans who have credit cards hold over the payment of credit cards and that amount is about \$2,000 for each Americans. This condition seems to harm American economy, however, the credit cards companies earn a lot of money from the interest of the balance carried over, about 70% of their profits (Hoffman, Joneil, Jessica). According to this condition, it seems Americans rely on credit cards so much and their attitudes towards credit cards are optimistic.

From author's survey, all interviewees said that they check their account statement of credit cards every month. Since the proportion of payment occupied by using credit card is high, the interviewees may need to pay attention to the result of using credit cards. However, according to the author's survey, only 20% of interviewees know their credit cards' interest rate. From these facts, Americans tend to not expect that they will have debts because of credit cards even though they use credit cards for paying so much.

V Conclusion

Before conducting a survey, the author's stereotype is that most of Americans use

just credit cards to pay for things. However, in terms of the number of credit cards which people possess, debit cards are more popular than credit cards. Debit cards are similar to credit cards at a glance. On the other hand, these cards have different functions. The culture of debit cards in U.S is totally different from that in Japan because debit cards are not popular in Japan and the number of places where debit cards are available is so limited.

But, credit cards are still the best alternative payment means in terms of the purchase volume. As written before, Americans rely on credit cards. Even though credit cards are convenient, there are the risks and disadvantages. From the author's survey, only 2 of 21 participants say they had credit card debt. The U.S economy fluctuates easily. The unemployment rate in U.S is relatively higher than other developed countries with 9.2% in 2011, compared with 4.6% in Japan, 7.7% in UK, 6.0% in Germany. The possibility of losing a job and bankruptcy is much higher than other countries. As mentioned above, credit cards have the function of paying later. So, if people cannot adapt to the abrupt change of income because of unemployment, they may have a lot of debts. The reason why there are so many cases of bankruptcy is that Americans do not expect the possibility of bankrupt or having debt, even though Americans rely on credit cards so much in terms of payment means.

Through American Language and Culture (ALC) program held by Stanford University and Volunteers in Asia (VIA), participants have a lot of opportunity to experience American culture and American consumer behavior. Before joining ALC program, some of the participants were recommended to bring their credit cards because credit cards prevail in U.S and actually credit cards are available in most of shops.

Through the research connected with this paper and experiences of VIA program, the convenience of credit cards has been proven and Americans' attitude toward credit card and the risks have been explained.

VI Appendix

The Advantages and Disadvantages of Credit Card in U.S

Your answers will be confidential and anonymous

• **Age**

☐ ~16 ☐ 16~20 ☐ 21~25 ☐ 26~30 ☐ 31~40 ☐ 41~50 ☐ 51~60 ☐ 60~

• **Gender**

☐ Male ☐ Female

• **Ethnic origin**

☐ White not Hispanic ☐ Black not Hispanic ☐ Hispanic ☐ Asian or Pacific Islander ☐ Filipino
☐ American Indian/Alaskan Native ☐ Other ()

• **Are you currently**

☐ married ☐ single ☐ separated ☐ divorced ☐ widowed

• **Your place of residence**

()

• **Current occupation**

()

• **Annual Income**

☐ ~\$10,000 ☐ \$10,000~30,000 ☐ \$30,000~\$500,000 ☐ \$50,000~\$700,000 ☐ \$70,000~\$100,000
☐ \$100,000~\$200,000 ☐ \$200,000~

1. Do you have credit cards? If so, how many cards do you have?

☐ Yes () cards (→Q3~) ☐ No (→Q2)

2. Why do not you have a credit card? (Choose one)

☐ Afraid of the risk of bankruptcy ☐ Security ☐ No qualification ☐ Dislike the high interest rate
☐ Other ()

3. Do you have the other way to pay money?

☐ Debit Card ☐ Online payment (PayPal etc...) ☐ Nothing ☐ Others ()
☐ Cell phone payment

4. When was your first time to have credit card? (Choose one)

☐ ~16 ☐ 16~20 ☐ 21~25 ☐ 26~30 ☐ 31~40 ☐ 41~50 ☐ 51~60 ☐ 60~

5. Why do you have credit (debit) cards? (Choose one)

- ☐Convenience ☐Reward program ☐Protection ☐Credit history ☐Online payment
☐Other ()

6. Which elements of credit card do you value mostly? (Choose one)

- ☐Free annual membership fee ☐High points or mile ☐Tie-up with favorite shop
☐Widely accepted ☐Tie-up with your main bank ☐Privileges (ex. Airport lounge)
☐Customer service ☐Low interest rate ☐Status ☐Other()

7. Which means of payment do you use mostly in the certain occasions? (Choose one)

- Restaurant (~\$10) ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Restaurant (\$10~) ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Coffee shop ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Vending machine ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Transportations fare ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Convenience store ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Supermarket ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Department store ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Clothing shop ☐Credit Card ☐Debit card ☐Cash ☐Others ()
Electronics store ☐Credit Card ☐Debit card ☐Cash ☐Others ()

8. On average, how much is your credit card(s) bill per month? (Choose one)

- ☐~\$100 ☐\$100~\$200 ☐\$200~\$300 ☐\$300~\$500 ☐\$500~\$1000 ☐\$1000~\$2000 ☐\$2000~\$4000
☐\$4000~\$6000 ☐\$6000~\$10000 ☐\$10000~ ☐Forget

9. Have you ever had (1) debt or (2) experiences that you could not pay because of credit card?

- ☐1 ☐2 ☐1&2 ☐Never

10. Please tell me your credit limit (Choose one)

- ☐~\$100 ☐\$100~\$200 ☐\$200~\$300 ☐\$300~\$500 ☐\$500~\$1000 ☐\$1000~\$2000 ☐\$2000~\$4000
☐\$4000~\$6000 ☐\$6000~\$10000 ☐\$10000~ ☐Forget

11. Do you know the interest rate of your credit card?

- ☐Yes(%) ☐No

12. How often do you see your account statement? (Choose one)

- ☐Every month ☐Every 2months ☐Every 3months ☐Every half year ☐Never

VII Biography

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