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Consumer credit and society in transition countries

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Introduction

In much of the developed and developing world the 1990s saw a large increase in consumer credit. In OECD countries, just in the last half decade of the last millennium household debt as a ratio of household income rose from 78% to 96% (Christensen and Mathiasen 2002, Babeau and Sbanu 2003). In post-communist transition countries consumer credit is still a novelty but its pace of growth is even more impressive (Cottarelli at al 2003). Between 1997 and 2001, consumer lending in Poland, Hungary and the Czech Republic grew by 26% annually (Economist 02/27/2003) while other countries in the region with a lower starting point produce even more striking rates of growth. Banks in everywhere in the post-communist world, even in less affluent China and Vietnam, are viewing consumer lending as the next new frontier in finance. Mortgages, purchase credit, credit cards, auto loans are advertised in all cities and an increasing number of people apply for them, to buy now and pay later.

While a large literature in economics is devoted to the sustainability of this expansion there has been relatively little reflection on the way consumer credit reorganizes social relations between lenders and borrowers and in society in general. Recently, there has been several studies investigating the link between civil society and credit, but they mostly focus on public debt or the flow of credit between countries.[1]

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[1] The relationship between credit and civil society has been discussed most extensively in the context of public finance (Ferguson 2001, MacDonald 2003, MacDonald and Gastman 2001, Centeno 2002). Public finance, as it emerged originally in renaissance Italy and became a central force in structuring the state's bond with society in late 17th century England to spread to the rest of the Western world created a new relationship between the sovereign and his subjects. The ruler engaged in war had to mobilize resources. War finance could not be based solely on savings of the treasury and therefore governments had to turn to citizens for loans. The domestic bond market built on the voluntary participation of citizen creditors required a form of government where the borrower's absolute power had to be curtailed so that repayment did not hinge solely on the borrower's whim, as few would have assented to lending to a despotic state that had the power to annul the lending contract. The contractual nature of credit required that the two parties enter their agreement as quasi-equals as the lender had to trust the borrower.

Indebtedness of the state, of course, has never guaranteed democracy or even political accountability. The effect of public debt not surprisingly has always depended on who lent the money and whether the state was strong enough fiscally to return the loan. States indebted abroad, to foreign financiers, were under no obligation whatsoever to treat their own citizens with special consideration. In fact, despots, capable of squeezing their own subjects without democratic constraints often seemed to be better risks for foreign lenders than unruly democracies.

Sociological treatises of consumer credit, on the other hand, rarely go beyond exposing the supposed catastrophes or extolling the purported virtues of borrowing.

This paper is based on a multinational research project comparing consumer credit markets, and credit card markets in particular, in eight transition countries (Poland, the Czech Republic, Hungary, Bulgaria, Ukraine, Russia, China and Vietnam). While my original question guiding this research is concerned with the ways banks decide on creditworthiness of applicants, in this paper I will gather some of the issues emerging from this research that I believe has relevance for civil society.

I will begin with developing a notion of modern consumer credit that emerged in a two step process; first, credit separated from other moral obligations, then the relationship between debtor and creditor shifted from trust mediated by personal networks to rational calculation mediated by institutions. Then I will discuss six mechanisms through which banks exercise their power to lend: 1. through *sorting*, banks link fates of individuals to fates of other strangers. 2. through *creating identities*, they determine how we are held accountable for our obligations. 3. through a system of *record keeping*, they decide how memory is structured and how reputation can be built. 4. through *quantification* and rendering us measurable they objectify and grant high visibility to certain characteristics of ours. 5. through deploying various techniques of *prediction*, they have the ability to foresee the future better than their clients, 6. through generating complexity and withholding information, they *create uncertainty* for their clients. In each case, banks are constrained by their cultural, institutional and legal environment. Finally, I will make a few observations about some of the social consequences of the growth of consumer credit and bank power in transition countries.

From Lending and Borrowing to Credit

Credit, a special, rationalized form of lending and borrowing, reallocates economic resources over time by allowing people to use resources before they earn them

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The ability of the state to repay the loan is also important. Weak states that are unable to pay off debts can end up in a debt spiral and soon will find earlier debts a serious limitation on their capacity to attend to their basic tasks. Latin American states exemplify this problem that did not have the power to mobilize the resources necessary for mass wars of military conquest (Centeno 2002). They did borrow to finance limited although often very bloody clashes with other countries but then to repay their debt they were unable to build a proper system of taxation and relied on state monopoly over natural resources or custom duties instead.

for an explicit price that is often called interest.[2] By doing this, credit also redistributes resources and power among actors reconfiguring social relationships. For borrowers, credit always creates both opportunities and obligations. Both opportunity and obligation can reposition borrowers in the system of power relations. Borrowing can make one both powerful and vulnerable. For lenders, credit is always a gamble therefore creditors carefully screen or select borrowers, try to keep them under some control and attempt to sanction them if borrowers violate their obligation.

Lending and borrowing have always played an important role in social life. People have always engaged in transactions where one party's contribution to another's well-being was not immediately reciprocated. In a sense, parents bringing up their children are lending them resources to be repaid when the parents are too old to take care of themselves. Neighbors helping out each other in time of need is a form of lending and borrowing. Peasants working in the agricultural cycle making large investments upfront and seeing their pay off only later, usually at the time of the harvest, often borrow tools, labor and other resources from their extended family. None of these are usually construed as credit because they are often not thought of as economic transactions and there is no clear price set for the early use of resources.

Consumer credit in its contemporary form developed in a two step process from lending. For a long time, lending was submerged in and intermeshed with personal obligations and as such appeared first and foremost as a moral issue. Even transactions overtly economic in nature were understood not in the framework of the rational calculus of credit and debit, but in that of duty, obligation and trust (Muldrew 1998, Sullivan 2002, Finn 2003). Lending as a moral, as opposed to an economic act was guided by religious norms for centuries. Treatments of lending in the Old Testament (Exodus XXII, Deuteronomy XXII, Leviticus XXV), draw a crucial divide between brothers and others. Interest bearing loans were forbidden to brothers, i.e., members of one's own close community but not necessarily to others, as some of the Church Fathers later emphasized (Gelpi and Julien-Labruyere 2000). Judaism makes the same distinction (Tenenbaum 1993). The essential idea is that helping brothers in need, whether through alms giving, as

2 Interest is not the only way to price credit. Dividend, when payment is set as a percentage of future profits is a different one. A review of the various alternatives Islam banking, heeding to religious imperatives found to charging interest see Maurer 2002.

preferred by Christianity, or by interest-free lending, as favored by Judaism, is a moral obligation and should be seen as a part of a complex system of responsibilities, which among other things ensures reciprocity or repayment. Lending to others, people to whom we are not closely bound, is different. There the loan can be isolated from other commitments and can be given its own rules of conduct.[3]

This separation of lending and borrowing from the web of other personal obligations was the first step in the creation of modern credit. By lifting lending out of the immediate community, it was also lifted out of its entangled moral context and was made amenable to rational calculation. Credit, therefore, is a special understanding and particular way of handling arms-length obligations whereby a record of carefully circumscribed responsibilities are created, and the creditor can exact a price for advancing resources. [4]

The second step in the creation of modern credit, which happened as recently as the second part of the 20th century, was the further, more radical disembedding of lending from social relationships. Earlier, extending credit was extending social networks often far beyond one's own community. The notaries public of 17th century Paris, the people Parisiennes in need for a loan would turn to, were acting as go-betweens linking creditors and borrowers in an unbroken chain of personal contact (Hoffman et al. 2000). Credit reporters of the Tappan Mercantile Agency of New York in 19th century America played the same role making it possible that through a continuous sequence of human contact, wealthy East Coast investors could reach out to farmers and entrepreneurs in other parts of the country in need of capital (Norris 1978). These mediated face-to-face contacts served double duty. They made the borrowers intelligible to lenders explaining who they were and whether they were deemed worthy of credit. At the same time, they also

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[3] Philosophically, the debate over interest turned on the conception of time. Interest is essentially a rent on time, and collecting rent can be justified only if time is scarce and valued. Time becomes scarce once a cyclical concept of time based on natural life cycles of the seasons and the biological world is supplanted by the idea of a linear and irreversible flow of time, a notion of history. Christianity with its teachings of eschatology did introduce this linear notion to the pagan world of medieval Europe: the world was moving inescapably towards the last judgment (Gurevich 1985, Le Goff 1989). Time was quickly depleting, time became scarce. But time on earth was not valuable, because it was just the prelude to or a shadow of the sacred life beyond. Only when life on this earth got revalorized in the Renaissance and when the life beyond faded and the last judgment got postponed indefinitely, with Protestantism, did time become valuable opening the gate to guiltless interest collection (Weber 1904/2001).

[4] It is no coincidence that the earliest development of the technology of credit happened in long distance trade.

guaranteed some sanctioning in the event of bad behavior ensuring a measure of accountability. The lenders' final decision was based on -- a more of less informed -- trust. The social ties were fostering trust and the lender's final decision was based on a more or less informed judgment whether the applicant should be trusted.

The second step dispenses with these social networks for the most part and replaces them with a set of institutions. Arm-length relationships become impersonal. The borrower is made intelligible by institutions through a set of precise categories they provide.[5] Institutions are also the chief instruments for penalizing those who renege on their promise. The lenders' decision is not necessarily any more informed, but trust in the borrower is not a consideration anymore. It is formal calculation that guides lenders.[6]

Modern Consumer Credit

The consumer credit revolution began in the United States in the 1920s (Olney 1991, Calder 1999) but it took off fully since the post-World War II economic boom of the 1950s. Before that, consumer credit was extended through a set of personal, face-to-face relationships. Households borrowed from family and friends, -- in which case it often did not count as credit -- and received credit from local merchants. Extended on the basis of trust, credit was embedded in existing social networks which, on the one hand, made the economic transaction inseparably intertwined with other social relations, and on the other, enabled the lenders to nudge or punish borrowers who neglected their obligations. Until the start of the 20th century, consumer credit was largely relegated to the form of store credit and pawning. Banks were reluctant to lend to individuals for non-productive purposes, and it was the manufacturers of the first consumer durables (e.g., sewing machines, pianos, typewriters and motorcars) who introduced consumer credit through their pioneering installment plans.

The novelty the consumer credit revolution brought was the rationalization and impersonalization of credit. The entry of banks into retailing credit was part of this revolution. Before the 20th century, banks lent money to consumers only of great wealth,

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5 These categories assume no actual connection among those who belong to it and are based on some abstract common characteristics.

6 Lenders still must trust the institutions that provide the information and the often quite technical methods they use but not always fully understand. We call this confidence because this kind of trust refers to abstract entities and not to people.

power or high social standing. The consumer credit revolution has changed all that. Today, banks are the main dispensers of consumer credit, along with a smaller number of specialized finance companies created for the sole purpose to offer loans to consumers. For simplicity, I will call all of them banks.[7]

From the beginning, there have been speculations about the social consequences of consumer credit. One can usefully sort the literature into two categories: one that focuses on the new opportunities credit opens up for consumers and another fixated on the new obligations incurred by borrowers. Like the famous goblet illusion, where we either see a white goblet or two black faces, most treatments of the topic present exclusively either one or the other face of credit but rarely both.

In the first category, credit as opportunity, a pessimistic, conservative stream castigated consumer credit as a force undermining the Protestant work ethic, paving the road to decadence and the corruption of social virtues (Galbraith 1958, Lasch 1979, Tucker 1991). Capitalism, they complained, was built on the ability to defer gratification, and it will crack under the weight of the contradiction of necessary frugality and expanding hedonism (Bell 1976). Interestingly enough, this criticism was echoed some of the concerns of the Marxist left castigating mass consumption society with its individualistic materialism from a pessimistic but progressive position. Marxist critics have also insisted that crass materialism was not human nature but the result of relentless advertising and ideological manipulation.

The optimistic view of mass credit pointed to its equalizing, democratizing effects; the way borrowing can soften class boundaries in consumption and allow a large part of the population to join the propertied middle classes (Boorstin 1973). This sanguine approach perceived the new opportunities not as sinister seductions but as the economic fulfillment of democracy. Indeed, the expansion of bank credit made basic necessities available for the first time to a large portion of the population and commentators should be excused to see it as one more step in the process of democratic inclusion. On the other hand, a more critical analysis sharing the same set of optimistic assumptions pointed out that the equalizing potentials of credit are thwarted by

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[7] In transition countries, non-bank finance companies are still a novelty and in some lending is explicitly limited to banks by law.

discrimination in lending. The great potentials of credit to benefit society have been subverted by lenders biased against certain social groups (e.g., Munnell et al 1996).

The obligations inherent in credit were the center of the second set of contributions (Manning 2000, Ritzer 1995, Galanoy 1980,). There authors warn of a new age of debt slavery when unscrupulous lenders rob people of their freedom tricking them into borrowing beyond their means. From this perspective, the easy life through credit, the main concern of the previous approach, turns out to be a mirage, a ploy to deceive us. People work extra hard just to keep up with the next payment and wholesome family values are neglected by overworked, inattentive parents (Medoff and Harless 1996). The critics of debt slavery emphasize the imperfect foresight of debtors, their limited judgment, which is why they discuss the perils of over-indebtedness of the young in much detail. Imprudent borrowing then leads to a downward spiral where a small debt leads to ever larger ones and finally to bankruptcy. Equality achieved through borrowing is a chimera. Rather than lifting the young and the poor up, borrowing pins them down to destitution. The rich, who either do not need consumer loans or can easily pay off debt, and, in general, tend to be more financially savvy can avoid the debt trap, hence the gap between the well-heeled and the worse-off is bound to grow. The prime mover of consumer credit is the greed of financial institutions that care about nothing but their own bottom line.

The slightly patronizing tone of this literature is in unmistakable contrast to the more narrow treatment of credit by most economists who assume that credit is given and taken on the basis of rational calculation on both sides.[8] The critical literature also readily confuses consumerism, the real culprit of their story and credit which is one of its instruments. Although undoubtedly an enabler in pursuing these desires, credit is as much the consequence of materialism as its cause. It is rarely mentioned in this literature that the primary obligations of debt frequently introduce secondary obligations. Some of these secondary obligations are less sinister. Taking out a mortgage on a house where one lives imposes not just the duty to pay back the loan but also all the rights and responsibilities of home ownership.

[8] For exceptions in the economics literature see Ausubel 1991, and Prelec and Simester 2001.

The critical arguments fixated on obligations limiting personal freedom neglect the fact that the new obligations are often replacements for old ones. Bank credit is frequently a substitute for a loan from family or friends. In some instances, borrowing from a bank might entail fewer and simpler obligations than borrowing from one's nasty but rich uncle. Moreover, one may not have a rich uncle who is able and willing to help.

What much of both literature is missing is that it is not just that more and more people owe money to banks but the way banks exercise their power to lend has been changing dramatically.

Banks as Social Institutions

Is credit simply a private market transaction contingent on the discretion of the two parties involved? For centuries, lenders lent their own money to borrowers. For larger projects, rich financiers formed consortiums but each was risking his own funds in the transaction. Today, credit is extended mostly by banks. Banks are often thought of as private companies, rational, profit-driven market players that happen to be providing financial services. Banks, however, are special because they do not lend their own money but the money of their depositors. The bank is an intermediary, itself owns very little of value and therefore it cannot be held financially accountable for mismanagement or outright fraud, a lesson transition countries like Russia and Bulgaria learned the hard way.

Because banks are lending their depositors' money they are better thought of as social institutions that serve the function of gathering and rechanneling the savings of the population. The credit cooperative movement that began in Germany and Italy in the mid 1800s explicitly defined itself in such terms. Savings and loans associations were civic association with a financial purpose (Guinnane 2002). Modern banks with tens or hundreds of thousand depositors, a wide variety of very complicated transactions often in faraway places, and a military style bureaucracy are far removed from the small credit unions where members formed committees, knew each other and most credit applicants, and decided important issues by membership vote. Even contemporary credit unions operate mostly like banks without members realizing there is a difference.

Still, banks are social institutions and for this reason are or should be highly regulated and supervised. Borrowers also must be given special rights. The idea that credit is a right of anyone who fulfills the basic requirements of creditworthiness developed in the United States in the 1970s through a series of laws.[9] In transition countries, bank regulation and oversight proceed at varying speed. The Central European countries that have joined the EU in May, 2004, have a sounder regulatory system then those not under direct pressure to conform to EU rules, but in none of these countries do laws against discrimination cover lending explicitly nor are there anti-usury laws.

The Power of Lenders

Issuing credit is a form of power but it is a peculiar one. The lender is powerful as long as the loan is not granted. Once it is, the borrower has the upper hand as now it is the borrower's discretion whether the loan with interest is repaid. A series of sanctions must be at the lender's disposal to deter debtors from simply taking the money and running. The increasing social -- and often geographical --distance between lender and borrower that facilitated the simplification of the calculus of lending from balancing a complex system of moral demands to simple cost-benefit accounting, made enforcement more difficult and required the muscle of the state. Laws designed to deal with dead beat borrowers are pre-conditions of a modern credit market.

Transition countries produced laws that are deficient in three ways. Existing laws are poorly enforced, some laws are missing, and laws created for other (often good) purposes, as it is the case with privacy laws, interfere with the functioning of the credit system. Poor law enforcement is a hallmark of post-communist states. In case of the borrower's default, the bank must have recourse to legal enforcement that is both fair and quick. In transition countries, the legal system is notoriously slow and therefore, collection is difficult. Courts are known to take over 3 years to process cases, which is much too long to be worth it unless the loss to be avoided is very large. Lenders, therefore, try to stay away from the legal system if they can and use high collaterals and their own methods of collection that bypass the courts.

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[9] Most important ones are the Equal Credit Opportunity Act of 1974, 1976 and the Home Mortgage Disclosure Act of 1975.

Moreover, the nature of consumer credit, that provides relatively small amounts and thus requires that lenders extend a large number of such loans to make them profitable, makes recovering loans and punishing non-payers extremely costly. Even under the best legal system, if more then a miniscule segment of debtors decide not to pay, there is not much the bank can do. Going after clients owing a few hundred dollars each is simply not worth it and hunting down thousands of them is just impossible. Therefore the key to the bank's power in consumer lending is not ex post punishment but its ability to select ex ante the clients who are less likely to require sanctioning later. This screening process is the key to the ways consumer lending is reshaping society.

The power of sorting

Credit requires a standardized system of sorting that makes the debtor's situation intelligible and credible to the lender. Sorting the applicant into proper categories is the way lenders comprehend applicants and decide what to do. Classification schemes provide a language, a set of categories to describe the debtor's finances (monthly salary, utility payments, ownership of residence etc.). They also supply standardized nomenclatures to capture their social status (occupation, industry, level of authority, education etc.) and past behavior (delinquency, missed payment, completion of financial obligations etc.). All of these categories can be defined and understood in an unlimited number of ways. Some variations in meaning or classification will have little practical consequences but others may make a big difference. Whether monthly salary includes all income from an employer, or if a university professor is described as a professional, a teacher or a white collar worker, if delinquency is 30 or 180 days of not paying, all matter a lot.

There has been a growing literature on the power of classification. Starting with work by Foucault (1973, 1979) the power of classification has been stated and demonstrated over and over (Desrosieres 1998, Leyshon and Thrift 1999, Browker and Star 1999, Gandy 1993, Lyon 1994, 2003). There are two ways one can think about the power of categorization; instrumentalist claims emerge from a political economy approach, substantive claims are rooted in culturalist perspectives. The instrumentalist approach contends that powerful actors can use sorting to for their own purposes. Here sorting is the tool but not the source of power. Much of the post-Marxist literature on this topic belongs in this category (which is to sort those who write about sorting). Power is generated *prior* to the act of classification. Classification then just accommodates existing power interests. The substantive approach, on the other hand, accords power to categorization itself. Classification schemes have their own power, independent of who is using them. This independent power is best observed when its operation is not optimal for its users. In its inertia or path dependence where categorization reveals its true might (Rona-Tas 1998). Classification systems have an independent power for three reasons: 1. network externalities, 2. complementary verification, 3. and legal enforcement.

Network externalities

The concept of network externalities describes the phenomenon where adopting widely used classification schemes (or standards, technologies, products etc.) will be more beneficial than adopting ones with a narrow user base because part of the value comes from other adaptors (Katz and Shapiro 1986). This creates a self-reinforcing mechanism: the more people use a classificatory scheme, the more incentives there will be for others to use the same one. This means a first mover advantage: already established systems that already accumulated many followers pressure actors to adopt them rather than make up their own.

Network externalities emerge from compatibility, it is easier to move information across actors if it is coded in a common scheme. For instance, monthly salary must be interpreted by the bank, its clients and their employers the same way to make it a useful measure of the client's ability to pay. What is included (perquisites, premiums etc.) or how it is counted (-- if the employee receives a 13th month salary, should the monthly figure be multiplied by 13/12? --) are guided by rules that were not designed to be optimal from the lender's perspective. The bank could give its very specific set of instructions about what monthly salary means, but it would make the loan application very cumbersome and its data incomparable with data from others.

The same compatibility issues emerge with occupation, industry, authority, and education. All are taken from government statistical nomenclatures because this way not only is there a convenient commonly understood standard but also there is aggregate information from other sources that can be used to evaluate individuals as representatives of larger groups. For example, one can look at incidence of unemployment in the particular occupational or industry group and use that to evaluate the riskiness of the applicant but only if the applicant is sorted according to the categories of the unemployment statistics. Occupational sorting in transition countries illuminates this point further. In Hungary as in most post-communist countries, occupational codes were developed under state socialism famous for its proclivity to giant companies. As a result, a very detailed nomenclature of employee positions in large, hierarchical organizations was developed and implemented. After the collapse of communism, most of these large organizations disintegrated and a big, and increasingly internally differentiated self employed group emerged. The classification system still reflects the old regime. As a result, the system retains distinctions rarely used anymore, such as the fine split between unskilled and semi-skilled workers, which had been used to set the nationwide salary scale. In contrast, important distinctions are missing and very different cases are lumped together. An individual entrepreneur can be an architect or a sunflower seed peddler. A manager, for instance, used to be the director of a big work organization, but now she can be coordinating the work of a handful people in a small retail outlet or could be simply responsible for a special project without permanent employees. And new occupations are not covered; for instance, there is no occupational title for investor or speculator. All these pose problems in deciphering who the applicant is.

Industry codes are yet another example. The importance of industry, from the lender's perspective, is to guess the financial prospects of applicants. Private enterprises, when they register, must declare the field of their activity. Businesses are often unsure of what industry they belong and are even more uncertain where they will fall in the years to come as they develop. Reflecting this uncertainty, they register as many fields as they can think of next to their primary industry, so if they stray into other fields, they do not have to re-license themselves. Yet their primary industry is how they identify themselves officially, even though this may only reflect their intentions at the inception of the firm. Still banks accept these shaky industry designations because other agencies do the same. Or take the distinction between agriculture and services. Under communism, the people who maintained combines and tractors in agricultural cooperatives were listed as employed in agriculture, the same way as those who drove that machinery. With the reorganization of agriculture, mechanics were separated and began to work in their own ventures. They still do the same job often on the same tractors and combines, but now they are service workers along with people like car mechanics and appear as more creditworthy. Working in the rapidly expanding service sector sorts them more favorably than those toiling in moribund agriculture. Banks would rather pay the price for this error than set up their own industry classification for reasons of compatibility.

Banks also stick with classification scheme for reasons of *internal* compatibility. Banks want to keep their own category systems comparable with their other records so they can compare over time and over products. The sorting scheme used to issue mortgage loans in the past will be used for applicants for new products (e.g., credit cards) to be able to use the experience with mortgages to judge them. [10]

Complementary verification

The second mechanism is complementary verification. A categorization is useless unless the information the categories convey can be believed. Each classification must be complemented by some way to verify the information it contains. Banks, for instance, could ask the applicant if she is the kind of person who keeps promises, but there is no way of telling the veracity of the response. Another piece of information lenders could use is whether the would-be borrower has any health problems. No lender asks this question, because verifying the answer – sending the applicant for a thorough medical checkup -- would be too costly and intrusive, but without verification self-reported health would be useless information.

Compatibility facilitates verification, but as the above examples show, compatibility by no means guarantees verifiability (e.g., if the source is motivated to lie or verification is too expensive). Banks can verify information by 1. direct checks, 2. by consulting other data bases or requiring authorized supporting documents and 3. by cross checking. In the second case, lenders must trust that other institutions do their own checking and have the power to sanction falsification.

[10] There is also a tremendous inertia lodged in the application form itself. Banks are very reluctant to change application forms because they have to reprint and distribute them, field questions from confused staff and correct unforeseen errors. There is also a clear limit to the length and complexity of these forms. In banks, marketing people always push for shorter simpler forms, the risk managers want longer questionnaires with more sophisticated information.

Direct checking

Direct checking is usually very costly. As personal encounters between lenders and borrowers become less and less frequent direct checking is increasingly rare, except for confirming phone numbers.[11] For old customers, who have a history of transactions with the bank, the bank combs its own records: another form of direct checking.

There are different external sources banks can use to verify information. They can ask employers to confirm income and occupational data, they can consult public data bases, such as phone, business and property registries.[12] Asking for supporting documents is a version of consulting external sources, except the information is obtained not directly from the source but through a document issued by the source and obtained by the applicant. The insertion of the applicant in the information gathering process, of course, introduces a new source of potential distortion.

Consulting external data bases and requiring authorized documents

One important institution that plays a key role both in establishing categories of people's finances and in providing a way to verify this information is the tax system. For most people, the annual ritual of filling out the tax return is the main occasion for reviewing one's finances. The tax form provides the main categories to organize people's financial activities. The Tax Authority with its power to audit and punish has the role to guarantee the veracity of these figures.

The tax system of transition countries is notoriously weak. Not having a real individual income tax system under state socialism, the civic culture that underpins modern tax collection is abysmal. Tax evasion is rampant and employers and employees join forces in underreporting wages and salaries to avoid payroll taxes. Employers, especially of small enterprises, to help employees acquire loans also overreport their income in response to bank inquiries. In transition countries, the counterbalancing pressures of taxation (which slants income reports downward) and credit (which tilts them upward) do not generate income estimates that converge around unique and true

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[11] In Argentina, banks for a certain class of high risk applicants make home visits. In transition countries, this would be very unusual.

[12] Collateral is useless without clear property titles, easily accessible in well-maintained business and property registries (De Soto 2000).

figures. In countries, like Russia, many banks simply dispense with income data altogether, because no one believes them anyway. [13]

Cross checking

Another piece of information that is similar in importance to the role income plays in lending decisions is educational achievement. It is curious that no lender ever asks for educational credentials but simply believes what applicants report. This can be partly explained by the fact that lenders try not to scare away customers with making the application process unduly burdensome. But it is also because education can be reasonably verified by the fourth method: cross checking. Cross checking looks for inconsistencies in the report. One's occupation is strongly tied to one's education so checking self-reported education against a verified occupation should be sufficient. Cross checking is now routinely done by computer programs, flagging unlikely combinations of characteristics that require further acts of verification.

Legal enforcement

Finally, legal enforcement also adds to the power of a particular classification. The law defines defaulting on a loan as 90, or 120 or 180 days of non-payment. By the same token, who counts as a domestic person as opposed to a foreigner for financial purposes is set by law and so is who is married and who is not. Because legal enforcement has consequences when some action is taken – in this case when default is declared or joint liability is enforced – these categories are preferred over others.

Once people are sorted into verified categories, the resulting measures must be combined to reach the final sorting: the judgment of yes or no.[14] This is a secondary sorting, because it is based on the further sorting of sorted information. While the original categories and their verification come from the tax office, the state statistical office, various institutions of credentialing etc., the way this information is put together, is prescribed by the internal procedures of the lending organization. This syntax can be a circumscribed process of human judgment, a set of formal rules, or a statistical

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[13] One way of improving the tax system is to curtail cash transactions and expand the role of electronic payment. Here banks can play an important role.

[14] Actually, the judgment can be more complex involving the terms of the loan.

algorithm.[15] These different syntaxes represent increasing levels of formalization and routinization.

The power of identifying

Sorting looks for commonalities among people. Its object is to put the applicant in a category where others were already observed. Then the past behavior of people like the applicant will be used to guess how the applicant will behave. Identification tries to establish the unique characteristics of an individual. It looks for a set that has only a single element: the applicant. Identification makes the individual available for surveillance and sanctioning. All modern states have some form of identification for their subjects from passports and driver's licenses to social security cards and birth certificates (Torpey 1998, Rule at al. 1983). Before the French Revolution, people were identified by lineage, residence, status, i.e., various measures of where they belonged. Names, family and surnames, also follow this same approach. Modern state IDs, on the other hand, make an attempt to tie identity to biological characteristics of the body. The picture ID produces a likeness of facial features, height, weight, eye and hair color are noted, along with age (date of birth). None is unique individually, but in combination, they are likely to fit only one or very few individuals. Fingerprints, and more recently, iris and DNA recognition (features that require instrumentation to detect) have been added to the arsenal.

In contrast, lenders are less and less likely to have physical contact with borrowers therefore bodily traits are not very useful. Today, most credit files do not include even pictures of the borrower. Credit returns to the older approach of identifying through belonging but does it in a distinctively 21st century manner. For an ID system to work from the creditor's perspective, it must have three characteristics. The first one, as mentioned already, is that it must be unique to each individual. The second, and this is also shared with all other ID systems, it must be stable. Hair color, weight or facial features are all imperfect markers because they can all change which limits their utility. The third important characteristic is findability. It is one thing to establish someone's

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15 There is also a fourth method in between rules and statistical algorithms. It is a point system, where rules are quantified and are used not in a binary, yes/no fashion, but by assigning weights to each. These weights, however, are not the products of statistical modeling, but they reflect expert opinion.

identity, who shows up at the border, in the welfare office or gets stopped at a traffic check. Physical characteristics are helpful once the person is present and the question is to establish who he is. Non-paying debtors are unlikely to show up at the bank, and the main task of the lender is to track down the non-payer.

Findability, therefore, involves pinning debtors down somehow. Thus lenders ask for phone numbers and prefer land-lines that are connected to a fixed physical location to cell phones that can move around. They ask about address and prefer ownership over rental, not so much because owners are better off people than renters. In fact, since most rural residences are owner occupied and rural areas are poorer than urban ones home ownership is scarcely a sign of affluence. Home ownership is a sign of stability and gives the lender a physical point of departure to find the borrower if necessary. Applicants for consumer credit always have to provide the name and exact address of their employer. The lender then checks on the existence of the employer organization. Long-standing and large employers are better than small ones, because they are thought to be more likely to be around in the future. The same goes for length of employment with the employer; the longer one has worked there, the more probable it is that she can be found there in the future. People who work but have no employers and work organization of any sort, i.e., the self-employed, cannot very well be pinned down this way.

Lenders also often ask for the name address and phone of an acquaintance living in a separate household.[16] What the information about address, employer and friend provide is indications of stable social networks, in which the borrower is anchored (Rona-Tas and Guseva 2001). These groups are not unlike ship anchors that keep the boat from drifting away or to use another metaphor, they are like the huge heavy balls convicts carry on their leg-irons. Unlike the social networks of the Maghrebi traders of the Mediterranean (Greif 1989) or of the Orthodox Jewish diamond merchants of New York (Bernstein 1992), these networks are inert, they are not expected to sanction bad behavior. Employers will not punish employees who go delinquent on their personal loan. The same is true for neighbors and friends. Nor are they responsible for the borrower's debt. With the exception of employers, they do not even provide information pertaining

[16] In some countries, like Russia, this is rarely asked. The assumption is that friends of clients will not give any information to lenders anyway, not to seem disloyal to their friends.

to the client's creditworthiness. The reason they are important from the lender's perspective is that they may help locate the client.

In sum, the way individual identity is constructed in consumer credit transactions is to uniquely anchor the would-be borrower in a stable social network so that she can be found if necessary.

The power of record keeping and remembering

In any community, the dealing with people with whom one has not had sufficient personal experience requires a system of reputation. Reputation systems serve two purposes. They punish bad behavior committed in the past and help others to avoid bad characters in future dealings. Historically, the information that built one's reputation was circulated through social networks (Landa 1995, Olegario 1999). In small communities, gossip, rumor, various forms of public branding (scarlet letters, pillory, special cloth etc.) transferred information about the character of certain people. These systems always contained inconsistencies, contested, conflicting and competing information, and there was rarely full agreement on who was good and who was unworthy.

Reputation systems are always about information sharing and collective memory. The reputation system in contemporary lending is embodied in the credit registries (credit bureaus).[17] Unlike in earlier reputation systems, the information in these registries is highly consistent. Credit bureaus can collect and share solely negative information, or the full performance record of borrowers and include positive information as well. Because banks are competitors, information sharing about customers is not a simple matter. Information about clients is a valuable commodity that banks often acquire at a cost. Knowing who is good and who is bad risk is the key to the bank's success in lending. Most transition countries have limited information sharing among lenders and it is mostly restricted to negative information. Black lists then punish past bad behavior by warning future lenders and closing off sources of credit from those who had not paid.

[17] Credit bureaus can include information about corporations and/or individual borrowers. The distinction between corporation and individuals gets somewhat blurred for the individual entrepreneur who are numerous in transition countries. Formalized reputation systems exist also at the company and state level. States (just as large companies) usually receive credit ratings from specialized international agencies that keep of a registry of states (and large companies). The three largest, international credit rating agencies are Standard and Poors, Moody's and Fitch.

Because credit bureaus act as collective memory and they record the past, black lists are an invitation for malefactors to switch identity and thus erase their record. Individuals can forge their documents or find proxy applicants for loans to cast away the burden of their history of bad conduct.[18] Black lists make no distinction between applicants with perfect record and those with no previous experience.

Full records, on the other hand, provide a full picture of past behavior and thus encourage people to "build" their reputation. This means that people must invest into their histories and cannot throw away their past without penalty even if their change of identity goes undetected.[19] With the black list, no information is good information, with the full list, no information is not much better than bad information. Full records not just impose a different relationship to history on would-be borrowers than black lists, they also push actors to take on loans. Building a record means borrowing; building a *good* record means borrowing and paying promptly. So one must borrow (and pay) not just to afford a purchase but also to be able to borrow in the future. Full records also allow banks to evaluate the total debt exposure of their clients. Additionally, they can put non-payment in context by seeing whether it is the exception or the rule in the applicant's record.

Full information credit bureaus for consumers are very hard to develop in transition countries because retail banking is highly concentrated. In each country, what used to be *the* saving monobank under socialism dominates the market. Big banks, often possessing over 50% of the retail market have a lot to lose by sharing their vast amount of information with new, smaller banks which have very little to contribute to the credit bureau. Big banks would rather keep the information they have about clients and use it to their own advantage. Releasing information on good clients would be an invitation for the other banks to poach. Moreover, good clients could take their shining reputation and force banks to compete for their business driving the price they pay for their loans, and consequently the profits of banks, down. Information sharing about bad clients has a slightly different calculus. While there is some advantage for the big bank to withhold information about its old bad customers and see its competitors lose money lending to

[18] For companies this is easier. They go out of business and resurface under new names.
[19] Unless, of course, they steal someone else's identity and history with it.

them,[20] there is also the benefit of punishing non-payers by shutting them out of the entire market by alerting other lenders. As a result, most transition countries have black lists, but only a few managed to build a full reporting system. These are Poland and the Czech Republic, where for historical reasons the concentration of retail banking has been less pronounced.

One law that has a strong effect on credit but was designed to address different concerns is the law on protecting personal data. Most, but not all, transition countries have strong laws to protect the privacy of personal information. Created in the aftermath of the collapse of Big Brother state socialism, people were eager to shelter themselves from an all-knowing state. Blanket data protection laws thwart the creation of credit bureaus because they prohibit the release of personal credit information to any registry without the explicit permission of the client. In all these countries, banks argued successfully that non-payment is such a gross violation that it forfeits the borrower's right to data privacy. But that means that getting on the black list strips borrowers of all protection and makes it hard for them to contest judgments they feel unjust.

In Poland and the Czech Republic, where full record credit bureaus operate, and where banks joining forces, were able to circumvent privacy regulations[21] the credit bureau collects not just information on payment behavior but also "socio-demographic" data that include income, occupation, family information etc.. In fact, very soon these credit bureaus will be able to produce a detailed life history for each person who has been in their system long enough. Worse yet, these credit bureaus, just as their US counterparts register the history of inquiries to each account. As this is available for others making their own inquiry, the history can influence their decisions. The general wisdom among lenders is that too many inquiries without loans extended are a warning sign. Even if the record does not contain negative information otherwise, it must indicate that previous lenders "know" something unfavorable about the person that is not apparent in the record.

[20] Big banks will know about more bad customers than any smaller bank.

[21] In both countries, the credit bureaus are bracing for legal challenges. The uncertainty about the legality of full record credit bureaus is bigger in the Czech case, where some banks decided to take a wait and see attitude.

This, of course discourages people to shop around with various lenders for the best deal.[22]

Personal data protection is an absolute necessity. Yet what transition countries need is a special law that is aimed specifically at the gathering and sharing of credit information and that specifies what information can be collected, how long it should be kept, who has access to it under what conditions, how individuals can monitor their own records and contest unfair information. There also should be popular oversight keeping an eye on the overall functioning of the credit bureau.

The power of quantifying

Lenders also marshal the power of quantification. Numbers are powerful not just because of their air of scientific objectivity but also because of their ultimate simplicity, easy communicability and instant comparability. Banks turn their assessments into numbers and both the Polish and the Czech credit bureau recently began to issue credit scores, a single numeric summary of a person's credit record based on statistical analysis of similar accounts. This quantification of creditworthiness has had enormous consequences in the United States and will likely run a similar career in these newer markets in the future. In the US, credit scores, a number between 375 and 900, are now used not just in gauging creditworthiness but as a general measure of character and reliability.[23] Would-be employers will request to see the applicant's credit score, and so do future landlords. Today, in the US, 95 percent of car insurance premiums are calculated on the basis of the credit scores, as insurance companies claim it is a good predictor of future claims (Kellison et al. 2003). And recently, the largest utility company in Texas began to set what it charges for electricity based on the customer's credit score.[24] It is all the more disturbing that the algorithms that produce these credit scores are considered proprietary information and remain a mystery to the public.

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[22] In the US, there is a 14 day bundling rule. Inquiries within a 14 year period are considered as a single inquiry.

[23] This expansive power of quantification is akin to what happened to IQ. A measure, originally designed to gauge learning difficulty in school became a widely used measure of cognitive ability of any kind. It is no coincidence, that some companies request SAT1 scores along with credit scores from applicants to judge ability and character.

[24] USA Today, Spet 9, 2004. "TXU to peg some customers' rates to credit scores."

The enormous power of quantification of one's reputation which covers up human judgment and discretion in the decision making process, however, can cut both ways. While banks can legitimize their selection process by pointing to its scientific nature making challenges to their decisions difficult, the very same numbers can empower customers with high scores who can demand better terms from banks in a competitive market place. This is why US credit bureaus, created for the collective convenience of and with cooperation from the banks, were reluctant to release scores to individuals unless their request was turned down and only since 2001, following a California legislative decision, do people have the unlimited right to know their scores. The Polish and Czech credit bureaus do offer free access for individuals to their own record, but not to their credit scores.

The power of foresight

Overall economic stability is key for credit markets as credit is about the future. Unpredictable future prospects make both the borrower's and the lender's calculations futile. The early years of post-communism made guessing the future especially difficult. Large scale institutional changes, such as the introduction of bankruptcy laws in Hungary in 1992 resulting in a 10 percent jump in unemployment rates and an even larger drop in the economically active population within less than a year, the very essence of the post-communist transformation, created great instability. The necessary reforms were often aggravated by vast policy blunders such as the banking crisis of 1997 in Bulgaria, or "Black Tuesday" in October 1994 and the financial meltdown of 1998 in Russia, further destabilizing entire economies.

By the late 1990s, most European transition countries completed the fundamental transformation of their economic systems. Inflation dropped to single digits and real incomes started to grow. Unemployment settled at a steady rate, new wage differentials developed, regional differences became entrenched. The window of great economic opportunities offered by privatization, the malfunctions left by the communist economy, and the inflow of foreign capital, are now closed. The economic system achieved a level of consolidation.

The banking system also got more stable. Each country dealt with the old bad loans from the communist era. Each developed its central bank, a financial accounting system, standards for risk management, and system of oversight. Many transition countries sold off most of their banks to foreign financial institutions or let foreign banks establish their own independent subsidiaries. With foreign ownership, mostly came Western know-how, and money for investing in information technology and infrastructure. Foreign ownership also made it harder for the state to politicize lending and prop up moribund state companies. All of these development helped credit markets and consumer credit markets in particular to grow.

One consequence of greater economic stability is that it makes it possible for banks to use statistical models to predict the behavior of applicants. These statistical models work by extrapolating the past to the future in a rigid manner and they are quite useless without a measure of stability and predictability in the economy. But even under the most settled conditions some people's lives are more predictable than others. Banks people with reward stable lives, those who have stable employment will be preferred over those who may make more money but whose careers are more precarious.

The power to create uncertainty

When banks receive an application for a loan they find themselves in a situation of information asymmetry: clients may opportunistically withhold information crucial for the bank's decision (Stiglitz and Weiss). They know more about their intentions and circumstances than lenders can learn and they can hide or misrepresent relevant facts lenders cannot verify. One way banks are leveling this information asymmetry is by withholding information themselves. Disclosing the terms of the loan is mandatory everywhere and several of the transition countries require that lenders provide not just the interest rate but the APR (Annual Percentage Rate) that includes fees and costs. Yet banks do everything they can to make loans as confusing and as incomparable as possible. This is especially bad for open-ended (revolving) loans. For instance, credit card holders often pay extra for monthly statements they receive if they had activity on their account that month. Because the actual cost of these statements depend on usage, this is not included in the APR. There are separate rules for card purchase and cash withdrawal. Separate fees for transferring money to pay the credit card account. There are also various ways banks calculate the interest one pays. The complexity of lending contracts can be mind boggling. In transition countries, regulators are often ineffectual and consumer organizations that should supply advice to consumers are non-existent.

Banks, like their customers, also often withhold information or lie about their financial health. This is of great concern for borrowers when the loan is conditional on a security deposit or a current account with the bank. This is an important concern in countries like Russia, which has thousands of small banks many of which go bankrupt making deposits vanish. [25] Here it is up to the regulatory agencies to force transparency.

Consequences of Credit

What are some of the social implications of the advent of modern consumer credit in the transition countries? Are social inequalities reinforced or upended by the diffusion of retail loans? Consumer lending in the transition countries is becoming more inclusive and rigid at the same time. Competition among banks on the consumer credit market is on the rise, as foreign banks enter these markets. Domestic banks started to pay more attention to consumer lending partly because their large corporate clients began to abandon them to seek corporate loans abroad. One should not overstate the force of competition, however. Retail markets in transition countries, as mentioned earlier, are still highly concentrated and clients are reluctant to move from large, old banks they have grown to know to new, unfamiliar ones even if they are offered a better deal there. Upstarts complain about the inertia of customers who prefer the perceived security of the large banks. The difficulties of deciphering terms and conditions of loan products also counsel immobility.

Equally important that the routinization and automation of the lending decision have made consumer credit cheaper and thus affordable for a large segment of society. Banks are moving at varying speed and caution from an elite market to a mass market in consumer lending. A few smaller banks decided to stick with a limited, affluent clientele and offer them personalized and comprehensive financial service. But most split their clientele into two; a small circle of VIP customers and a much larger group of regular

[25] Russia introduced deposit insurance only at the end of last year.

clients. Because there are few elite customers who are not already committed to a bank (and banks go out of their way to keep their VIPs), the only way to grow is to attract new, less affluent customers. The result is a more inclusive market.

At the same time, consumer lending is becoming more and more rigid. Banks are still learning about the new technologies of consumer lending, but the tendency is to centralize lending in a single credit processing center. This will erase the importance of local knowledge and impose a more universal and consistent system of criteria. As banks move in this direction, it will become impossible for someone who was turned down in one branch to get the loan from another.

Differences will fade not just within a single bank but also across banks. At this point, banks are still testing various submarkets. Some banks offer promotions to students, others to internet users, others to good customers of cell phone companies, yet others to employees of their corporate clients. This creates a measure of diversity across lenders, even if these groups often overlap and there are groups, such as the elderly, who are not considered by any of the banks. However, as banks converge on a common methodology of client selection ("best practices") and as they learn from their own experience and from each other which groups are the desirable ones, there will be social groups that will find it consistently difficult to borrow throughout the entire market (or will be able to get loans only on predatory terms).

If the sorting of customers would be optimally designed to minimize non-payment,[26] there would be still two issues of concern. First, routinized sorting assigns individuals to groups and treats them not as individuals but as group members. This means that in groups where non-payment is relatively high (say 20 or 30 percent) all group members (including the other paying 80 or 70 percent) will be treated as high risk. The point is that the statistical models have large errors – they predict many people to be bad debtors who end up being good and forecast good behavior for many people who end up behaving badly. And the wider the market and higher the default rate the more mistake they will make not just in accepting bad clients but also rejecting good ones.

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[26] Minimizing non-payment is different from maximizing profit. Sometimes non-paying customers are among the most profitable if they eventually pay up with penalty, and promptly paying customers are loss-makers, as it happens in the US with credit cards, where the main source of income from clients is interest and a client who pays fully during the interest free grace period is a loss-maker and is free riding on those who revolve their debts.

The second concern is that because these models mechanically project past performance to the future, they are likely to lock poor groups into their unfavorable position and out of the opportunities provided by credit. Once a bad risk always a bad risk.

There is no doubt that lenders will discriminate. They must discriminate between good and bad borrowers. Unfair discrimination is in the way the judgment distributes its errors among different groups in the population. The literature argues that statistical decision making is less discriminatory than old style human judgment. The empirical evidence given is lending to women in the United States, where the personal judgment of loan officers (who until routinization deskilled the job tended to be male) tend to prefer men while ‘objective’ statistical models actually favor women (Johnson 2004). But the lessons of gender discrimination in the US may not generalize to other cases. It is hard to argue that quick decisions about a large number of complete strangers will be more error prone if done by fallible humans than computers (Rona-Tas 2004). The question then is that as some of the old categories of discrimination will be supplanted by new ones which are the new groups who will suffer unfair discrimination.

The slowly emerging system of mass consumer credit prizes stability. People who are employed by large companies for a long period will be preferred. The system discriminates against the self-employed who maybe rejected even if they earn more than do employees simply because their income flow is less predictable and sometimes they are harder to anchor. The new system rewards people with educational credentials regardless of content or value and thus discriminates against those without formal degrees. Availability of the applicant is rewarded, so anyone who lives in an area where telephone landlines are hard to come by, such as people in the countryside will be at a disadvantage.

New consumer credit strongly discriminates against old people. Most lenders have an upper age limit --usually between 60 and 65 -- on eligibility to apply. One bank decided to offer credit cards to university faculty to find out that many of the top professors did not qualify. They were too old. In fact, credit benefits most the younger age groups. For one thing, they are the ones that need it most. At the beginning of their life cycle they must invest into their household: buy a home, furnish it, purchase appliances etc., yet they have little savings. Not surprisingly, they are the most interested in borrowing (Toth and Arvai 2001).

Credit comes with strings attached. The installments must be paid regularly. If one becomes unemployed even temporarily, debt makes job loss even more painful (just as saving can cushion its impact). Anyone, who is fired, leaves a job voluntarily, or gets sick and carries a mortgage or a car payment, will find it difficult not just to hang on to her house or car, but to avoid getting on some black list of bad debtors.[27] This increases the employer's power over his indebted employees. Employers are key to get the employee the loan but once the loan is secured the loan acts as a disciplinary force serving the employer. The obligation to the bank increases the worker's commitment to her job, employers' powers are enhanced.

With the ability to take bank loans, people depend less and less on the financial support of their family and friends. Bank credit, therefore, will weaken family ties and the extended family will lose one of its reasons for being. Still, borrowing from kin might be preferable as relatives are less likely to be inflexible in case some difficulty arises and ask no or little interest. But because this type of lending is embedded in a complex set of obligations, one may have to pay for the loan in circuitous ways, ways that seem completely unrelated to borrowing.

The availability of consumer credit for young people means that it takes them less time to become financially independent from their parents. With a vigorous mortgage market, young people can move out of their parental home more easily. The way to get to a house or an apartment in the old days was either to enter a hopelessly long bureaucratic queue for a flat in public housing or to build one's own house. Building a house required a tremendous amount of time and work at a young age, and a lot of help. Some of it was financial and came primarily from parents, but a lot more came in the form of labor, information, and assorted favors from friends and acquaintances. This created a dense system of reciprocity and mutual obligations (Sik 1986, Kenedi 1980, Rona-Tas 1997). In the countryside, it reinforced extended families and distant kinship ties. But even in the city, it mobilized a large social network of helpers. Borrowing

[27] Some banks offer insurance against sickness and unemployment but it is usually expensive and debtors rarely buy it.

others' help meant that one was obliged to pay back the debt in kind. With bank mortgages, much of the labor can be purchased for money from strangers. The poor will still prefer labor exchange, as they might not qualify for a mortgage loan or they still might find it cheaper to spend time and not money as their wages may be very low. But an increasing number of people will opt for credit, dispensing with the thick network of mutual help. Then their fate will be tied not to the fortunes of people they know, can communicate with and influence, but to those of strangers who are sorted into the same categories as they are.

Credit also forces people to be more rational and calculative. They must draw up a budget and plan ahead. They must wrestle with time as money in the form of interest and depreciation (or appreciation), and meet payment schedules punctually. In transition countries, consumer credit may introduce some of the very same bourgeois values that Western critics accuse credit to destroy. But consumer credit indeed abets a consumer culture fixated on material goods. Credit is always advertised as the key to the glorified life style of consumption and instant gratification. Yet, it would be a mistake to place the primary blame consumerism on consumer credit. In transition countries, rampant materialism had been firmly in place well before consumer credit emerged. Consumer credit is as much a result of materialism as it is its cause.

Conclusion

In transition countries, the social infrastructure of modern consumer credit is still underdeveloped, although the Central European countries are more advanced than their Eastern and South-Eastern neighbors. There are still a series of issues that require legislative attention to protect and aid both lenders and borrowers. Borrowers must be educated about debt in general. There should be anti-usury and anti-discrimination laws and more transparency in credit conditions. Privacy of personal data should be guarded but in a way which makes a full record credit bureau possible and balances the banks' legitimate needs for information and sanctioning with client privacy. There should be more efficient methods of legal sanctioning of non-payment including a system of voluntary arbitration that can relieve the court system.

Bankruptcy protection should be extended to individuals. Personal bankruptcy protection is still viewed by most banks as a license to default and they do not favor such legislation. Nevertheless, a properly balanced personal bankruptcy law would protect not just the debtor but also his creditors. The temporary sheltering of the debtor makes it more likely that at least some of the debt will be paid, and that claims among various creditors will be handled in a predictable and equitable manner. Finally, a more efficient tax system is needed.

Civic action also has a role to play. Non-governmental organizations can provide information and education about credit and personal finances. These NGOs can help with consumer protection, personal data protection, debt counseling, and with setting up small credit associations. With the displacement of social networks by statistical categories, those sorted together on the basis of certain characteristics such as gender, student status, age or ethnicity, have to form their own associations and use them in representing their cause vis-à-vis financial institutions. Banks must also have their own associations that allow them to cooperate in a politically accountable manner.

Modern consumer credit based on the rationalized and routinized processes is at an early stage. Its consequences are still unfolding and incomplete but proper legislation and civic action can nip in the bud some of its ill-effects.

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