# US Senate passes bankruptcy "reform"

## "The best bill money can buy"

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In a lopsided vote, Senate Democrats joined with Republicans on Thursday to pass a bill that will change the bankruptcy code, making it more difficult for financially overwhelmed consumers to erase debts owed to credit card companies, auto firms and other lenders.

The so-called bankruptcy “reform” is a transparent and ruthless piece of class legislation. It is the culmination of a five-year campaign by the credit card and banking industries to revamp the bankruptcy laws in their favor, to the detriment of hundreds of thousands of middle- and low-income families that become swamped with debt, usually as a result of a medical emergency, job loss or divorce.

The same firms that mail out billions of unsolicited credit card applications—3 billion last year alone—and hustle college students and people with poor credit ratings to sign up for credit cards, and then charge exorbitant interest and late payment fees, stand to gain as much as $1 billion a year when the new measure is signed into law by President George W. Bush.

Under existing law, consumers who find themselves submerged in debt have the option, as a last ditch measure, to file for bankruptcy under Chapter 7 of the bankruptcy code. The provisions are harsh. Chapter 7 filers must sell off virtually all of their assets, excluding their home, but they are absolved of unsecured debts, such as those owed to credit card companies and auto financing firms.

Personal bankruptcy filings have soared over the past decade—one expression of the highly unequal distribution of the benefits of the business boom of the 1990s. They rose to nearly 1.3 million in 2000, up from 700,000 ten years earlier. As compared to 1980, personal bankruptcies have risen by 300 percent.

A recent study reported that 40 percent of personal bankruptcy filings were triggered by unexpected and massive medical bills.

Now, as the economy plunges toward recession and major layoffs are announced on a daily basis, the big financial institutions are about to obtain additional legal weapons to squeeze money from hundreds of thousands of new families that find themselves in financial distress.

The Senate bill was passed only two weeks after a similar bill cleared the House of Representatives. Although the Senate is split 50 to 50 between Republicans and Democrats, and the Republican margin in the House is razor thin, the bankruptcy measure passed both bodies handily. The vote in the Senate was 83 to 15, while the House version passed by a three-to-one margin.

The two versions of the measure—the House bill contains certain loopholes for the wealthy that are lacking in the Senate bill—will now go to a House-Senate conference committee, and a final bill well be sent to the White House for Bush's signature. The Republican president has pushed for the measure and promised to sign whatever bill emerges from Congress.

Both versions of the bill would make it much more difficult for individuals to file under Chapter 7 of the bankruptcy code, forcing them instead to file under Chapter 13, which requires that they pay back at least part of all their debts over five years. Consumers generally would not be eligible for Chapter 7 if they earn more than their state's median income and can repay at least 25 percent of their unsecured debt. According to one report, on average, a family of four making $52,000 a year would no longer be able to “wipe the slate clean” by filing under Chapter 7. Experts estimate that the new hurdle would affect up to 10 percent of those who currently qualify for Chapter 7.

The House and Senate bills also contain provisions giving faltering companies less time to settle their debts and reorganize. This will force more small companies to go out of business. Last year alone 9,000 firms with an estimated 2 million workers filed for protection from creditors under the bankruptcy code.

In the debate on the bill, the Senate voted down a series of amendments proposed by Democrats to somewhat soften its impact and place restrictions on the marketing of credit cards to minors and other predatory business practices. With some Democrats joining the Republicans in each vote, the Senate rejected a proposal to append “truth in advertising” requirements to the bill, turned down special consideration for people seeking bankruptcy protection because of disastrous medical bills, spurned a requirement that credit card firms provide consumers more information about the costs of borrowing, and—in a vote demonstrating that “free enterprise” trumps “family values”—defeated proposed protections for minors, such as a $2,500 credit limit on credit cards and a requirement that some minors get a parent's co-signature on a credit card application.

The Senate vote on the bankruptcy bill is the latest in a series of measures that stamp the new administration as an unabashed tool of big business. Over the past two weeks the House has passed the basic outlines of Bush's $1.6 trillion tax bonanza for the wealthy, both congressional bodies have voted to overturn safety regulations aimed at protecting workers from repetitive motion injuries, and Bush has intervened to block airline workers from striking against the nation's largest carriers. All of these measures have been passed either with the support of the Democrats, or over merely token opposition.

Corporate lobbyists are gloating over their initial victories under Bush. Despite the generally pro-business policies of the Clinton administration, the Democratic president resisted some of the more sweeping demands for the rolling back of regulations restricting business operations. Shortly before he left office, Clinton vetoed a bankruptcy bill similar to the one now moving through Congress.

The wind has “shifted to our backs,” said Dirk Van Dongen, president of the National Association of Wholesaler-Distributors. Kevin Hassett, resident fellow at the American Enterprise Institute, a right-wing think tank allied to the Bush administration, exulted over the prospect of further inroads into environmental and land use regulations and new limitations on corporate liability, predicting a “red tape bonfire in the next couple of years.” He declared, “There's definitely a big sea change.”

Spokesmen for consumer groups have denounced the bankruptcy measure, both for its content and the manner in which it was promoted and drafted. “I've never seen a bill that was so one-sided,” said former senator Howard Metzenbaum, head of the Consumer Federation of America. Travis Plunkett of the Consumer Federation of America said, “Creditors have written large parts of the bill, paid for questionable research to support their claims, hired some of the best lobbyists and liberally stuffed the campaign coffers of key members of both parties.”

“This is the best bill money can buy,” said Frank Torres, a lobbyist for Consumers Union, publisher of *Consumer Report* magazine.

This last comment is no exaggeration. Rarely has the role of corporate money in buying congressmen and their votes been so nakedly on display as in the promotion of this measure. In the last election cycle the financial services industry spent $9 million in campaign contributions to candidates for federal office and both political parties. Commercial banks spent $29 million. While the financial moguls spread their largesse among Democrats as well as Republicans, more than two-thirds of their contributions went to the latter.

One of the biggest beneficiaries and most ardent proponents of the bankruptcy measure is MBNA Corporation, the nation's largest issuer of credit cards. The Delaware-based company and its employees gave a total of $3.5 million during the 2000 election. MBNA topped the list of corporate donors to Bush last year, contributing $240,675 to his campaign and $100,000 to his inauguration, according to the Center for Responsive Politics. MBNA President Charles Cawley was among the Republican “pioneers” who contributed at least $100,000 to Bush's bid for the White House.

Last fall, congressional Republican leaders closeted themselves with representatives of the American Financial Services Association and the Coalition for Responsible Bankruptcy, which together represent dozens of corporations, banks and trade groups, to produce the final draft of the bankruptcy bill. One of those closely involved in drawing up the measure was a high profile lobbyist for MBNA.

Collusion between major credit card companies and politicians is, however, not limited to the Republicans. Senate Minority Leader Thomas Daschle was among the majority of Senate Democrats who voted for the bankruptcy measure. His state of South Dakota is home to a Citigroup Inc. credit card operation in Sioux Falls. Daschle has received $45,000 in political contributions from Citigroup in the last six years, according to the Center for Responsive Politics.