Chapter One

Making Credit Modern

THE ORIGINS OF THE DEBT INFRASTRUCTURE IN THE 1920s

When the new institutions of the modern credit system took shape after World War I, its innovations frequently went unnoticed. Even to some trained financial experts, it appeared like nothing had changed at all. As one banker, Charles de B. Claiborne, later remarked in the 1930s, "We have always had installment buying, in my mind, for few ever bought for cash. The housewife bought and bought; she paid and paid, from month to month and from time to time."[1] The "charge account" or "open book account," where a retailer put a purchase on the books and a customer repaid at some uncertain future point, was the most common form of consumer credit for rich and poor, urban and rural, throughout late-nineteenth-century America.[2] Understood as a convenience, not as a profit source, charge accounts imposed no fees on the customer, unless the retailer had "credit" prices higher than "cash" prices. In some sense, Claiborne was superficially right: Americans still borrowed. Behind that borrowing, however, emerged new networks of capital that changed the meanings, the institutions, and the possibilities of lending. After World War I, personal debt in American capitalism began to become commercially profitable, institutionally resellable, and legally available on level unknown before.

Modern debt after World War I was defined through two new debt practices, installment credit and legalized personal loans, which reflected the social and economic order that emerged out of the new industrial economy. Installment credit allowed consumers to buy more, retailers to sell more, and manufacturers to make more, all at lower prices. Personal loans, meanwhile, enabled those industrial workers who made all those goods weather the uncertainties of capitalism's labor market. In tandem, the two debt practices developed for two distinct purposes inaugurated a new relationship between credit and capitalism, connecting personal lending to the larger circulation of investment capital in the American economy.

Retailers, perhaps, experienced the greatest transformation as debt became resellable. While the butcher, the baker, and the candlestick maker had always allowed their customers to charge their purchases, no retailer liked it. Consumer credit was a losing proposition that all retailers sought to avoid.[3] Lending, particularly the "open book credit" that small retailers used, was the surest way to the poorhouse. Customers didn't always pay. Record keeping was complicated. Credit bureaus did not exist yet for consumers as they did for businesses. Nonetheless, competition forced many merchants to offer credit, usually losing money in the process. Charging more for "credit prices" could drive business away, even as offering liberal credit could bring customers in. Retailers were not banks and did not have the excess capital to tie up in what amounted to unsecured loans to customers. Retailers were caught between the need to expand volume and consumers' desire for credit. This common sense thinking, that lending was unprofitable, is exactly opposite from our intuition today, when lending drives our economy. Retailers, unable to resell their debt or to finance it in other ways, had to perform the roles of bank, merchant, and collector—an untenable situation. Self-financed retailers tended to charge customers more and, through the mechanisms of repossession, had considerable incentive to cheat their customers. Only the largest self-financed merchants and manufacturers, like Singer, who financed its sewing machines or Sears, Roebuck who seemed to finance everything else, could do so without withering their own business and their customers' wealth. Even these large enterprises lost money on credit, but were able to make up for those losses on volume, something that a local merchant could not.

In the 1920s, for the first time, retailers could sell their debts to another institution—the finance company—and this simple possibility inaugurated the rise of the financial infrastructure that backed the proliferation of personal debt in the twentieth century, beginning the long process of realigning our financial common sense. This reselling of debt began through that most quintessentially American of inventions—the automobile. Financing the vast inventory of automobile dealers and the vast appetites of Americans for autos initially proved too large for auto companies, creating an entrepreneurial role for the finance company. In turn, the finance company enabled the profitable expansion of other forms of installment lending, expanding the flow of capital into nearly all areas of consumer durable spending. Through installment credit, working- and middle-class Americans could enjoy the fruits of the industrial economy, budgeting the payments to coincide with their now regular paychecks.

While consumers slaked their desire for former luxury goods like phonographs and automobiles through installment credit, Americans after World War I could also legally borrow for more pressing essentials—personal loans. If the industrial economy produced automobiles at prices Ford's workers could afford, it also produced structural unemployment, work injuries, and all the other hazards of industrial life beyond the control of individuals. Such hazards for working people were nothing new. Working-class Americans pressed for emergency cash had traditionally turned to personal networks of friends and family, themselves often financially constrained, and when those networks ran out, the local loan shark. With the legalization of personal loans—what was called "small loan" lending in the 1920s similar to what is called "payday" lending today—Americans discovered a means of financial self-reliance outside the judgmental eyes of family and community and outside the grasp of predacious loan sharks.

All Americans needed financing to benefit from and survive in the new modern world. Whereas the installment plan enabled middle-class consumers to enjoy the modern products such an economy made, personal loans enabled workers, who were always also consumers, to weather its brutal vicissitudes. While borrowing grew, the great suppliers of capital, the commercial banks, and the great organizers of capital, the manufacturing companies, initially kept the business at arm's length, leaving its risky lending for the hungriest entrepreneurs seeking the last scraps of profit. At a time when banks were distracted by the spectacular profits from manufacturing investments and the stock market, the unorthodox business models of finance companies and personal loan companies bridged the banks' capital to the consumer. Loan sharks began to move their capital from dank backrooms into the legal personal loan businesses, forming legalized national lending networks. At the same time, new independent finance companies, initially just connected to the automobile industry, eventually extended to all durable goods. Linking credit to the larger circulations of capital made credit cheaper and safer for consumers. Consumers finally had an alternative to the expensive, self-financed retailers and the illegal collection methods of the loan shark. Contrasting these new forms of credit with what came before—loans sharks vs. personal loans and self-financed retailers vs. automobile dealers—shows how the new credit system helped manufacturers, retailers, and consumers. For the middle-class, and the native-born whites of the working class, this new credit system displaced the old. For African Americans and for immigrants, access to this new credit system was more uncertain, and for those without access, lending remained as predatory as it had been before.

The rise of these new forms of debt was neither entirely beneficial nor entirely detrimental for borrowers but both at once, in complicated and often unexpected ways. Entrepreneurs, as well as reformers, created new institutions to meet these needs—creating profit for some and penury for others. Installment credit enabled people to achieve a level of consumption unattainable without the use of debt. With this improved standard of living came, at the same time, the risk of losing a family's possessions if the debtor missed a single payment. Did debt make good the promise of democratic consumption or was it only a quixotic dream of modern luxury for everyone? The Americans of the 1920s, of different classes, moral outlooks, and economic interests, had a variety of answers to these questions. For reasons of class, race, or nationality, those who did not have access to this credit paid more than those who did. Modern debt, whatever its benefits and drawbacks, refashioned the ways in which Americans bought, worked, and lived, in keeping with the harsh demands and unparalleled delights afforded by the modern industrial economy.

The Price of Risk: Loan Sharking and Small Loans

If a single place had to be pointed to as the origin of the modern debt economy, one might choose the backroom of a Minneapolis jewelry shop in the late 1870s, where a young John Mackey, a thirty-four year old man with a "substantial" inheritance, had recently set up shop to loan hopeful "settlers from both the East and from Europe" money as they made their way to the Dakota territories.[4] Mackey's small operation would eventually become, by the 1920s, the most widespread small loan company in the United States, the Household Finance Company, and then eighty years later, find itself at the center of American subprime and credit card lending. The story of his business represents, in some sense, a long thread of the history of American debt. Mackey's business could charitably be called a pawnshop, but the pawnshop was just for show. John Mackey was a loan shark, lending money at 10 percent per month, which added up to 185 percent per year.

Loan sharks, like Mackey, existed because there was no legal alternative for personal loans. In a utopian world, profit would not be necessary to get people what they need. Loans, for instance, could be lent with little or no interest and repaid when the borrower found it convenient, as many charitable societies attempted, with little success, at the turn of the century. Constrained by a lack of capital, these societies withered. Loan sharks, however, prospered. No legal alternative existed.

Profitable lending required the borrower to pay enough in interest and fees to offset the risk that debt would not be repaid. Charging interest on loans, per se, was not illegal, just usurious rates like those that Mackey charged. The definition of usury varied by state, but was always so low—typically 1 to 1.5 percent a month or 13 to 20 percent annually—that reputable businessmen could not make money lending to consumers. Though 13 percent seems high enough to us today, consider how much more difficult it would be to collect from a customer around 1900. Personal loans, by virtue of their size and the customer, made them more expensive to provide profitably under existing usury laws. Administering small personal loans was much costlier than commercial loans because the office work was at least as much for a small loan as for a large loan, if not more. Businesses had a paper trail of income and expenses, while individuals, few of whom paid income taxes, could be less transparent. Borrowers tended to have few assets to use as collateral. A unique identity, without a social security number, would be hard to ascertain. Without a phone, contacting references would have been arduous. Even if you knew someone personally, knowing who was a good credit risk was impossible without a credit rating, or at least expensive. The interest rate had to cover the risk of the loan, and without information, the risk was always high. Between paperwork and higher risk, small loan lenders needed a higher rate of interest than the 6 percent common in business loans to make a profit.

For loan sharks, the difficulty of collection was compounded by their having operated illegally. No court would enforce the loan. No bank would lend money to grow his business. Mackey had access to only a limited amount of money to lend. The scarcity of capital and the risk of borrower default made his money more valuable to him. Thirteen percent interest would not have allowed him to operate profitably. It is more than enough to offset risk today, but the relative cheapness of our credit is made possible through today's technology to enforce debts, regulation to compel us to pay, and lenders' ability to resell our debt to investors. These differences make possible profitable lending at 13 percent rather than 185 percent.

Mackey's business, despite these obstacles, grew with these high interest rates and by 1881 he opened an office separate from the shop.[5] Quasi-legal, these loan-sharking syndicates operated in the open, but with furtive methods to conceal their usurious rates. In 1885, he had the first of many usury lawsuits brought against him for charging exorbitant interest rates, which in annual terms topped 300 percent (he had evidently raised his rates). Though the lower courts found in his favor, the supreme court of Minnesota reversed the lower court's decision, finding Mackey guilty of usury. Despite the loss, however, Mackey took his fine in stride as a business expense and expanded his enterprise. In the next two decades, despite breaking the law, Mackey opened a chain of lending offices across many states.[6]

Why did people borrow from loan sharks like Mackey? Banks would not lend small amounts to ordinary people. For those who had exhausted the limits of charge account credit, there was no alternative. They had to pay their bills at the grocer or the butcher before they could get more food.[7] For those without access to other working-class credit sources, like a benevolent bartender, an ethnic credit circle, or friends and family, or were fearful of the ensuing shame of needing to borrow from someone they knew, the loan shark was often the only alternative.[8] Loan sharks, like Mackey, were an active and important part of working-class life in early twentieth-century cities.

Records from Mackey's Illinois offices in 1917 reveal that the firm served the needs of people working in diverse occupations—yet nearly always working class—as they struggled to make ends meet.[9] Working-class life was precarious. A sudden illness or job loss, especially for those with little or no savings, could mean calamity. A little money—two-thirds of loans were for less than $50—meant the difference between disaster and safety. Among Illinois offices, of 9,136 loans, the most common amounts borrowed were $25 (1,134), $50 (1,303), and $100 (1,189).[10] Loans like these, even at exorbitant rates, were often preferable to the alternatives of cold, starvation, and no medical care. A laborer required $25 to "pay up bills" because he had been sick.[11] A brush maker who could not get enough hours needed money for "living expenses."[12] A laundress wanted $10 for her family's shoes.[13] Sickness, back debts, rent, coal, and minor expenses were all too common.[14] Though the personal loan, to some extent, displaced the traditional interpersonal borrowing of working-class people, families used loans to help their families. Whether loan entries were tragic, like a "mattress maker" who borrowed $32.50 to "make good his sons [*sic*] forged check," or joyful like the fireman who borrowed $30 "to assist in bringing his two children from Europe," the small loan business helped families take care of one another, despite limited resources.[15] Necessity, not profligacy, drove this borrowing.

These loans were not charity. Though Mackey's profits varied, from 3.3 percent in one office to 16.6 percent in another, all made money.[16] In Illinois alone, the firm lent over a half million dollars in 1917.[17] Mackey's organization made money off the uncertainty and desperation attendant to risky working-class lives, not working-class profligacy or extravagance. Loan sharking "syndicates," as they were known, did everything they could to maximize their profit on this uncertainty. Mackey's storefronts, advertising "money to lend," lured in desperate working-class people. Coming in, an employee would quote a price to the borrower.[18] If that seemed too high, the customer would leave to try another lender. Unbeknownst to the customer, most of the other potential loan shark outfits, all with different names, would be operated by the Mackey organization as well, which controlled the bulk of the moneylending in Chicago. The "word" would be put out that the borrower was looking to borrow. Each store that the borrower visited would, in turn raise the quoted rates until the borrower was corralled back to the original store.[19] Without alternative credit sources, the borrower would have to pay what Mackey demanded. The shame of debt, which necessitated its secrecy, pushed the desperate to fall into the jaws of the loan shark.

Through his chain of loan shark offices, Mackey became fantastically wealthy, enjoying polo and yachting, owning property in California, Newport, and Europe, and even at one point entertaining the king of Great Britain.[20] Yet his offices, which occupied an "entire floor in the Willoughby building," according to newspaper accounts, were completely secretive.[21] Until Mackey's outing in 1910, no one outside his organization really knew what went on there.

The exposure in 1910 of the source of his wealth in Chicago newspapers as the "head of a gigantic loan shark 'trust,'" led to his expulsion from elite society.[22] Replying to critics, he justified his business: "Usurious interest? Certainly, as high as 20 per cent or more in some instances. What of it? Is it anybody's business but mine? I am not ashamed of it."[23] Though he did not challenge the claims that he charged usurious rates, he denied it was anyone's business but his and his clients,' insisting on an older, interpersonal model of lending.[24] Mackey felt that there was a "legitimate need" for his business and he felt no "stigma" for it.[25] Mackey's outlook, unfortunately for him, was not shared by the refined company that he preferred to keep. Rejected, Mackey retreated to the exclusive, one million dollar Leamington Hotel in Minneapolis, which he had built. Despite his social collapse, his company somehow persisted and grew.

While his social ambitions faltered, Mackey's business did not. The legal environment for small loan lending was about to change, and for Mackey's organization that would bring unprecedented and unexpected growth. The source of Mackey's good fortune came from a small group of devoted anti–loan shark reformers fixed on driving Mackey and his ilk out of business.

Profit and Regulation

The successful movement to foster profitable personal loans for the working class came from an unlikely nonprofit source: the newly created Russell Sage Foundation (RSF). Though named for Mr. Sage, a railroad baron who had little love for the working class, the RSF was the creation of his wife, Margaret, after his death. Very active in turn-of-the-century charity and philanthropy, Margaret Sage envisioned an organization for "the improvement of social and living conditions in the United States of America."[26] Even before the creation of the foundation, Margaret Sage's secretary, who managed her charity gifts, received thousands of letters from desperate New Yorkers. Many of these letters detailed their struggle with loan sharks, who broke the usury laws of New York and kept their borrowers in perpetual debt. Responding to these letters, the foundation decided to investigate by funding two dissertations on illegal lending in

New York, by Columbia graduate students Arthur Ham and Clarence Wassam.[27]

Their findings confirmed the letters that Mrs. Sage's secretary had received and both authors came to the same conclusion: the uncertain risk of workers' lives demanded that they have access to small loans to deal with their unexpected misfortune, and a legal form of small loan lending needed to be created. Usury laws intended to protect poor people from high interest rates and predacious lenders did not protect them from unemployment, illness, or the myriad other uncertainties facing an industrial workforce without recourse to a welfare state or a strong union. Instead, such restrictions on interest rates forced working-class people to turn to the very people they were intended to put out of business—loan sharks. These loan sharks charged borrowers between 60 and 480 percent per year.[28] Without a legal source for small loans, desperate borrowers had no other choice. Raising the legal rate of interest to a level at which lenders could make money, but would also not burden borrowers, would create a legal alternative to the loan sharks. Doubling the legal interest rate to 3 percent per month or 43 percent per year, they estimated, would create enough incentive for lenders to legally extend loans and still be substantially below the interest rates demanded by loan sharks. Calling for the reform of usury laws, the creation of legal small loan lenders, and the end of loan sharks, Arthur Ham joined the Russell Sage Foundation and emerged as the voice of the small loan reform movement in the 1910s.[29]

While supporting the quixotic efforts of the remedial loan societies, Ham worked for the rest of the 1910s on the creation of a model loan law that would not exploit borrowers, but would provide a reasonable rate of profit for the lender.[30] By 1916, Ham, in consultation with illegal lenders open to reform, finished what came to be known as the Uniform Small Loan Law. Ham defined small loans as personal loans of $300 or less.[31] Borrowers would pay a maximum of 3.5 percent a month to lenders, but without any hidden fees or charges.[32] The interest would only be charged on the unpaid balance rather that the original amount borrowed. The law also established the clear supervision of agencies in each state to enforce compliance. Small loan lenders could be profitable, but under state supervision, reformers hoped that they could not be predatory.

Through careful scientific examination, based on "intelligence instead of hysteria," experts believed they had found the best way to right this unintended wrong—the Uniform Small Loan Law. States that enacted this law would drive out the loan sharks.[33] Legislators heard that the borrowers were not "drunks" and "bums" like they had imagined, but the "exact reverse." Sickness, death, home repairs, education, unemployment, and other household emergencies were the reasons that people borrowed.

Money borrowed was not "to get drunk or for other evil purposes" but to deal with the uncertainties of an industrial economy.[34] Making the "scientific rate" of 3.5 percent legal would bring these moral borrowers out of the arms of the evil loan sharks.[35] Ham also promoted the small loans through ideals of hard work and ownership, citing in public speeches and writings how small loans could help a worker start his own business or a widow get by until she found employment.[36] All accounts of borrowing ended with working and generally owning one's own business. Reformers hoped small loans would be a bridge from owing to owning.

Such arguments to various legislatures worked. In 1917, four states introduced the small loan lending law and it was enacted in Illinois, Indiana, and Maine.[37] By 1928, adapted to local pressures, some form of the law was passed in twenty-five states covering over 60 percent of the U.S. population.[38] The businesses enabled by this reform called themselves a variety of names, all of which drew on the reformist language of the remedial associations and emphasized their legality: industrial banks, personal finance companies, or licensed lenders.[39] Industrial banking was the most frequently used in the 1920s because it was in industrial districts and for industrial workers that small loan lending found its initial niche. Because working-class borrowers tended to own little property, household goods were used as collateral in 90 percent of the loans.[40] A chattel mortgage was taken out on the borrower's furniture and other assets.[41] If the borrower failed to pay, the lender could take the borrower's collateral. Such foreclosures happened rarely—only 0.4 percent of the loans ended in this way.[42] Because of these chattel mortgage contracts, co-signers were not usually required on the loan.[43] Borrowing could be taken out in secrecy, without the social stigma of borrowing from friends or family but with the knowledge that the borrower was self-reliant and not taking charity.

In contrast to the mere tens of charity-driven remedial loan associations, by the early 1930s profit-driven industrial lenders numbered in the thousands.[44] The profits of small loan lenders were very respectable. In 1925, net profits in Virginia, New Jersey, and Massachusetts, the only public rates published, were 11.58 percent, 13 percent, and 7.7 percent respectively.[45] If Mackey's organization in Illinois in 1917 was any comparison, legal small loan lending, despite its lower interest rates, was just as profitable as illegal loan-sharking because unlike loan sharks, such businesses could use courts and police to enforce the debts, borrow from commercial banks to expand their operations, and operate in the open, all of which reduced costs and lowered default risks.

The profitability of legal personal lending was not lost on loan sharks. For many loan sharks, legalized small loan lending was a new opportunity to turn their ill-gotten gains into legal businesses. In the changing legal environment of the post–World War I period, the very business that led to Mackey's disgrace also led to his organization's greater expansion as it reorganized as a corporation in compliance with the new small loan laws. What had been a quasi-secret network of loan companies, operating under many different names, by the early 1920s could come into the light. Although unable to charge the rates they had previously set, lenders could now legally extend loans and use the powers of the state to enforce their contracts, which made earning profits much easier. In 1925 Mackey's chain of lending offices, now extending across the country, incorporated as the Household Finance Corporation.[46] By 1929, the Household Finance Corporation achieved the distinction of being the first small loan company to issue stock. The back-room loan shark had become a stock-issuing corporation. Previously illegal, lending had become big business.

The decision to go legitimate was not as easy as it might seem. Laws could always be changed. The transition to legal lending fostered its own difficulties. Some loan sharks, of course, resisted giving up their business just because of some new law, doubting whether it would last. An Atlanta loan shark, P. E. Leake, while referring to the new small loan law, "did not believe the bill [was] constitutional" and directed his underworld employees to "work hard to keep your customers in line and paying."[47] If customers asked about the new law, Leake instructed his employees to tell borrowers that the company "may be able to operate under the new law and all customers in good standing would be eligible for loans up to $300.00."[48] Uncertain of the future, many loan sharks continued their illegal operations, hedging against a possibly legal future, and trying to keep making their profit. By the 1930s, with the new inspection abilities of the state, such noncompliance was to be met sternly and swiftly. Loansharking had to go further underground to maintain its viability, but in doing so it lost its previously central role in working-class communities, as legal, well-capitalized small loan companies took its place.

Other loan sharks, however, like the Mackey syndicate and Henry French, tried to go straight and in the process reaped tremendous profits. In Georgia, the King brothers, Rufus and Charles, had built themselves a financial empire along similar lines to that of Mackey and French. Upon his death in 1933, the *Atlanta Constitution* described Rufus's business, Security Bankers' Finance Corporation (SBFC), as "operat[ing] subsidiary companies all over the United States, extending credit in time of need for vast numbers of people," which were known for their "sound business methods and able and conservative administration." SBFC grew, like the Household Finance Company, out of a vast interstate network of clandestine loan-sharking operations.[49] Like Mackey's syndicate, companies were registered under an assortment of names, but ownership was ultimately with the King brothers. An investigation done in the late 1920s found companies in the Rufus network in New York, Georgia, Pennsylvania, Missouri, and several other states.[50]

Like Mackey's, this illegal network used the new small loan laws to form a legal corporation in the mid-1920s.[51] Taking money previously made in loan-sharking, they used the new small loan laws to open small lending companies across the country, and to turn their previously illegal operations into legitimate ones. Incorporating in 1927, the SBFC of Atlanta, Georgia acted as a holding company for these small loan companies. SBFC's annual report credited the continued spread of the Russell Sage's Uniform Small Loan Law as the reason for its existence.[52] With "twenty-four states [having] prepared and endorsed" the law, the SBFC annual report claimed that the "subsidiary corporations" of SBFC had the support of "almost every civic and social organization in America" and the legal enforcement of the "State Banking Department," where they operated. The executives of SBFC who had "more than a quarter of century's experience in the small loan business," brought their acumen of loan-sharking along with them into the now legal small loan lending business.[53] Though the company initially had only a few subsidiaries, more were added every year. Within its first year, it loaned over $1 million to 7,310 families, earning $116, 968 in interest.[54]

Reformers seeking to destroy loan sharks may have undercut their business model, but they did not stop the businessmen themselves. Leon Henderson, soon to be at the center of the Roosevelt Administration but who then ran the remedial loan department of the RSF, approved of King's new direction, if not King himself. [55] Though the social stigma of moneylending remained, small loan law proponents did their best to encourage the transition to legal and regulated lending. The market-drive reforms of the RSF during the 1920s remade working-class borrowing. By raising the legal rate of lending, small loan reformers enabled a new profitable, legal financial industry to emerge from the shadows of the economy. Loan-sharking remained vestigial as part of the urban economy, but for most borrowers a legal alternative existed.

The industrial economy, however, was not all suffering. Modern conveniences and commodities promised workers an unprecedented standard of living, which, through installment credit, they began to enjoy.

Automobiles and the Origin of the Finance Company

Impossible to imagine today, before 1919 most cars were sold for cash.[56] Only after World War I did the automobile change from a rich man's novelty into a mass-produced commodity. As the quintessential luxury good, everything the factories turned out was sold. The creator of General Motors Acceptance Corporation (GMAC), John Raskob, said that "there has never appeared among mankind, in all its history, an object which has been more generally desired than the automobile."[57] Cars were not just a commodity; they had, according to Raskob, "given Americans new values in life . . . given us all something worth working for."[58]

By 1920, however, as the annual report of General Motors describes it, automobiles began the transition from what were "commonly known as 'pleasure cars'" to being "economical transportation."[59] Everyone who could afford to buy an auto for cash had done so.[60] To continue growth, the consumer base would have to broaden. Cars could no longer be luxury goods. As automobile production exploded in the 1920s, so too did the need for automobile financing for both consumers and dealers alike.[61]

The capital requirements of more expensive, mass-produced goods led retailers and entrepreneurs to explore new options in consumer finance and, in the process of meeting their own immediate needs, created a novel financial institution that was neither an informal lender nor a commercial bank—the finance company. Modern, pervasive installment credit found its institutional bedrock in the financial innovation of the early automobile industry. The financial infrastructure of installment credit grew out of the very requirements of heavy capital manufacturing for mass production, but once created, finance companies found other markets outside of the automobile industry. They turned to less capital-intensive retail sectors, which enabled the expansion of installment credit throughout the American economy. The automobile's historically unique combination of high expense, mass appeal, and independent dealers required an entirely new financial apparatus; it needed finance companies to enable the distribution and purchase of an expensive good on a widespread scale.

Automobile sales to customers occurred at the end of a chain of relationships. Manufacturers sold autos to dealers, which were independently owned by small businessmen. In turn, these dealerships sold the autos to customers. Upon delivery of a shipment of cars to a dealership, the dealer paid the manufacturer in cash. Before 1920, this system worked fine. Manufacturers made as many autos as they could and dealers were able to sell their inventories quickly. As the economy slowed after World War I and the cash-buying market was saturated, this system began to break down. Profitable auto factories had to be run constantly. Manufacturers invested heavily in productive capital, and letting it sit idle wasted money. The problem for automakers was that though production was year-round, consumers liked to buy cars in the late spring and summer.[62] General Motors (GM) and Ford could not produce all the autos they needed for the spring in just February. By producing year-round they lowered the average cost of production, which enabled them to lower the consumer's price to a level that made mass consumption possible.[63] The problem, for manufacturers, was how to lower inventory costs. Storing all those autos could become prohibitively expensive.

Manufacturers wanted dealers to bear those storage costs, by taking delivery from the factories year-round. At small volumes, dealers might have the capital and space for all these cars, but as volumes increased they did not. Dealers required "wholesale financing," that is, a loan to buy inventory to give the manufacturers the cash they demanded. Neither dealer nor manufacturer wanted to pay for the inventory costs, but manufacturers had the upper hand.

Manufacturers created wholesale finance companies for dealers to resolve these production pressures. Such manufacturer-organized finance companies, like GMAC, concerned themselves with wholesale financing and not, as GMAC would later claim, retail financing. Manufacturers, seeking to hold down storage costs that resulted from year-round production, forced dealers to take on stock out of season, often pushing them to the limits of their credit.[64] And the credit always had interest. The more autos the dealer took, the more money was made by the manufacturer, but the dealers now had to pay the inventory costs. Dealers who refused autos were in danger of losing their contract with the manufacturer.[65] Manufacturers denied this. GM insisted that "no dealer is required or permitted to carry stocks beyond that point" of necessary accumulation "during seasons of relatively low retail deliveries" so as to "facilitate prompt deliveries" and "to maintain manufacturing and distributing economies afforded by a reasonably level rate of production."[66] Despite such claims, dealers reluctant to take inventory knew other dealers could always be found. Turnover in dealerships was rapid. One independent finance company executive remarked that in northern Illinois he could not "find two automobile dealers in our town that were there five years ago."[67] What the manufacturer and the dealer thought were reasonable inventories could be quite different, as neither wanted to pay the associated costs of unsold inventories. As a result, their interests were in conflict. GM's goal of being "free from the evils resulting from excess accumulation of stocks" was as much theirs as the dealers, since for both, inventory costs cut into profits.[68]

For manufacturers, the expense of expanding production demanded all their available capital. With wholesale financing to handle the production problems, diverting scarce capital into the less profitable consumer debt, or "retail financing," made little sense. As economist Milan Ayres noted in 1928, "Why should not many of these manufacturers or merchants be glad to turn over that part of their business to finance companies, and thus conserve their capital, or credit resources, for the expansion of their primary business?"[69] An auto finance company that made a net profit of a few percent on its investment was considered to be making a good profit, but this was still far less profitable than the capital invested in auto manufacturing.[70] In the face of capital scarcity, manufacturers logically chose to place their money where it would be most profitable. Equally important was the sense from manufacturers that they sold cars to dealers, not consumers. Surprisingly it was not until 1924 that GM used "sales to consumers" as their "fundamental index" for measuring success instead of just sales to dealers.

Manufacturer finance companies' initial focus on financing dealers and not consumers provided an opening in the early 1920s for the emergence of small automobile finance companies. This gap in financing allowed independent finance companies with no automobile factories in which to invest, to invest instead in consumer retail financing. The much larger profits inherent to retail finance than to wholesale finance came quickly.

The lure of these profits pulled in entrepreneurs all over America. In 1922, for instance, Thomas E. Courtney of De Kalb, Illinois took out a $3,000 mortgage on his home to start a small finance company. Profits for Courtney, like for so many local finance companies in the early 1920s, were tremendous. By the end of the first year, the assets of his company, Northern Illinois Finance Company, totaled $30,000.[71] Like Courtney, most of these "newcomers" were locally oriented with limited financial resources. As one banker later remarked, a "line of business [which] has a rapid growth . . . attracts some who are entitled neither by ability, character, nor experience to manage a business, and installment financing [was] no exception to this rule."[72] Many saw the opportunity, but few made money as easily as Courtney, who went on to be a leader among small finance companies.[73] Yet for those who could tame the exploding industry, profits could be had. Within five years of Courtney's mortgage, the industry went, according to a vice-president of Commercial Investment Trust, from being virtually unknown to "employing an invested capital of nearly a half a billion dollars."[74] "In little more than a decade," a Chicago banker observed, finance companies "have acquired a capital that our largest banks have taken half a century to attain."[75]

Courtney's financing niche existed because commercial banks, like manufacturers, had little interest in filling it. Banks, with rare exceptions, stayed out of the automobile financing business in the 1920s. Of course, in the 1920s banks had many other, more traditional opportunities to make profits. Manufacturing was booming. The stock market, by the late 1920s at least, offered a fantastic site of investment for stock speculators borrowing on the margin, and stocks could be easily liquidated to repay such debts. The consumer finance market, though growing, was not a necessity. Most banks could not risk the investment in collections and consumer investigations. As the president of a large auto finance company noted in 1929, "[w]hen consumer credit first appeared in volume, about ten years ago, many bankers, particularly those of the ultra conservative type, were opposed to it. Theretofore the banker had concerned himself practically altogether with producer credit, and no attention had been paid by financial institutions to consumer credit."[76] Consumer credit was lending money for something that produced no value. Stocks and business loans produced return. Cars did not. A conservative banker would not lend money on an asset that produced no additional value, since it was through that additional value that the loan was to be repaid. The logic of business lending and the logic of consumer lending were totally at odds. And practical matters were as important as those logical differences. Banks had never provided installment credit for automobiles and did not know how to go about it. Even the most well thought-out idea could miss an important angle.

As finance companies expanded, however, they turned to commercial bankers for additional capital. Though bankers had neither the inclination nor infrastructure to directly lend to consumers, they could look at the balance sheets—and profits—of finance companies that needed capital to expand. Commercial bankers had plenty of experience examining balance sheets to determine how much money to lend to entrepreneurial businessmen, even if they did not know—or want to know—how to profitably lend to consumers. Finance company executives took pains to draw analogies between their businesses and banks to emphasize the soundness of consumer lending. One executive compared the finance company's receivables and notes to the bank's loans and deposits. Emphasizing the objectivity of balance sheets over cultural preconceptions, Alexander Duncan, an executive with Commercial Credit Company, remarked that "[c]ommercial Bankers feel, and experience has proven, that they are doing a safe and conservative business." If bankers agreed with that statement, then Duncan hoped bankers would see "that a well managed Finance Company is also doing a safe and conservative business, as shown by its actual experience, and that when its experience begins to prove otherwise it will quickly change its policy."[77] Balance sheets might convince bankers to lend to businesses, but not directly to consumers. The habits of a lifetime were more credible than a few years of profits.

The "success of a few stimulated the organization of many," observed another finance company executive in 1928.[78] The company and its services appeared seemingly overnight and changed the entire auto sector. The rapid expansion of installment credit in auto sales was fantastic. In contrast to before World War I, when there were virtually no auto installment sales, within ten years installment sales grew to 60 percent of the total number of auto purchases.[79]

Within a couple of years of the initial rush of hopeful entrepreneurs into the finance industry, competition began to take its toll. Executive Alexander Duncan remarked in 1925 that for the previous "two years there [had] been, and for the next several years there [would] continue to be, a gradual process of elimination which will ultimately benefit the strong and well managed Companies." Believing in the efficient operation of the market, Duncan saw the competition between finance companies as benefitting both the finance companies and consumers. With competition, nevertheless, profits dropped. Profitable finance companies who lent loosely in 1922, quickly saw their profits shrink by the mid-1920s.[80] By the end of the decade, bankers favorably remarked on the "gradual elimination from [finance companies'] ranks of the incompetently or dishonestly managed finance company."[81] GM's annual report for 1926 noted that in the finance industry "there [had] been a marked tendency toward more conservative policies" in retail auto finance.[82]

Though initially created just to finance the wholesale credit of dealers, after a couple of years manufacturer finance companies began to catch on to the profitability of retail finance as well. By 1924 GMAC provided about 5 percent of the annual profit for GM and its subsidiaries.[83] Whereas the GM annual report for 1919 describes the primary purpose of GMAC as, "to assist dealers in financing their purchase of General Motors' products," by 1927 the GMAC annual report describes "provid[ing] credit to the consumer of goods as its most important function."[84]

Only by the mid-1920s did GM begin to realize it had a relationship with the consumer as well as the dealer, in terms of product appeal and its profit growth. In the 1923 annual report, retail finance was, for the first time, on an equal footing with wholesale finance, with the stated purpose of GMAC to "assist dealers in financing their wholesale commitments and uses in the purchase of autos on the deferred payment plan."[85] By 1925 GM recognized the importance of time sales to its essential business plan, noting in its annual report that "at the present time its importance can hardly be overestimated."[86]

Clearly by the late 1920s, as GMAC became its own institution with its own set of problems and solutions separate from its parent company, it turned increasingly toward the retail business as a source of profit, putting a squeeze on local finance companies. While the GM annual report recognizes the importance of GMAC to its product distribution in the mid-1920s, the GMAC annual report had a different perspective on its role in the organization. GMAC provided wholesale and export financing, "but the most important, from the standpoint of operations, volume, business policy and administration is, of course, the retail business."[87] Unlike their parent institutions, who booked profits on manufacturing, these finance companies made profits only by lending money. Institutionally, they were set up to lend. Though the manufacturers had a definite idea about the purpose of these subsidiaries, institutional autonomy engendered more autonomous goals, leading to a revision of both their original purpose and their history. Inaccurately revising GMAC's history, its creator, John Raskob, recounted in 1927 the purpose of GMAC's creation as to fight the neighborhood "fly-by-night" financing of cars, which was "not sound or safe" for the consumer and who charged "outrageous" rates.[88] By the mid-1920s, these manufacturer finance companies began to compete with the independent finance companies for the consumer auto debt.

For independent finance companies, competition from manufacturer-organized finance companies could not have occurred at a worse time. The decrease in domestic new auto sales added to finance company woes by the late 1920s. Though more autos were manufactured in 1928 than in any previous year, the number sold in America was fewer than in 1923, 1925, and 1926.[89] Unlike the early 1920s, when a finance company could count on rising auto sales and little competition, sales by the mid-1920s had fallen and competition had increased. Manufacturer-organized finance companies, like GMAC, also increasingly looked at retail finance as a key component of their business. In 1926 GM produced one-third of all cars made in America.[90] From 1926 to 1927, it increased the number of autos still being financed at the end of the year from 646,000 to 824,190.[91] GMAC financed slightly over one million GM cars in 1927. Even as auto production sales fell, manufacturers nonetheless increased their share of the retail financing.

Independent finance companies decried the infringement of manufacturer finance companies on their territory. They saw the expansion of companies like GMAC the result of unfair "pressure" on dealers. The national association of the independent finance companies passed resolutions to demand "that the automobile manufacturer should desist from any attempt to compel its dealers to sell their time paper [consumer auto debt] to any particular company."[92]

Manufacturers denied this. A representative of the Motor Dealers Credit Corporation (MDCC), who financed Studebaker, "steadfastly refused" to recognize that his company had brought "pressure to bear" on the dealers, despite the fact that, as he acknowledged, MDCC would have liked to.[93] A GMAC representative claimed that his company "never used coercive measures in acquiring business, nor has the General Motors Corporation any such policy."[94] Ford's financing company, Universal Credit Corporation, expressed similar policies "opposed to factory compulsion and/or coercion which would compel dealers to do anything against their free will."[95]

Manufacturers did not need to pressure dealers. The structural realities of automobile distribution did the work for them. In the popular press, manufacturing executives like GMAC head Raskob, called the process of financing dealers, manufacturing goods, and lending to consumers part of one continuous process. For General Motors, retail finance was as central to their business as making the cars. The early separation of production, distribution, and financing began to be erased rhetorically. Though the "motor-car dealer" was "responsible for his debt," GMAC took "over the debt from him, at a reasonable cost for the service and his books [were] clear."[96] Raskob contrasted GMAC, a "real banking concern," with those "fly-by-night" finance companies that would fleece customers. GMAC claimed to protect customers from excess debt, by not selling autos "to persons who have no right to try to buy them." By presenting the benevolent face of the professional credit man, Raskob contrasted GMAC with the conventional "loan shark" image of the finance company owner. With their greater resources and institutional connections to dealers, manufacturer-organized finance companies steadily displaced independent finance companies in the automobile market.

Financing Everything

In the face of increased auto financing competition, some finance companies looked to diversify their accounts. In the early 1920s, independent finance companies could rely on auto financing for steady profits. As domestic sales fell and manufacturer finance company competition increased, finance companies approached those that had traditionally financed their own sales. Though finance companies were not initially necessary for the financing of other commodities, their services were still useful. The model of the finance company developed for automobiles was adapted for other goods.[97] Some financing companies specialized, like the American Finance Co. of Cincinnati (radios) or Refrigeration Discount Co. of Detroit (electric refrigerators).[98] Most of these firms, however, had matured through the automobile industry's easy profits at the beginning of the 1920s and turned to these new products as their older revenue dried-up. By purchasing their customers' debt, finance companies allowed these other manufacturers and retailers, to provide installment credit to their dealers and customers as if radios and refrigerators were the same as automobiles.

Unlike in the early automobile finance industry, easy profits did not exist at first to attract many independent finance entrepreneurs into household appliance financing. Manufacturers still needed, however, to finance dealers' inventories. Starting with General Electric (GE), manufacturers set up subsidiary financing companies for wholesale financing, and then, later, retail financing. GE made finished consumer goods as well as parts, like motors, for other manufacturers. In conjunction with some of its manufacturing partners, GE started six finance companies across the country, in New York, Pennsylvania, Ohio, Illinois, California, and Texas.[99] Initially, these companies had minority stockholders from other durable goods manufacturers who used GE motors in their machines, but as GE expanded into more lines, like washing machines and vacuum cleaners that allowed them to compete with their previous partners, those relationships fell apart. In 1921, GE formed its first totally subsidiary finance company that was the forerunner to the General Electric Contracts Corporation (GECC), leading the way for financing companies to become part of non-automotive manufacturers' business.[100]

Manufacturer competition determined the boundaries of lending in which the subsidiary finance companies engaged. Like in auto manufacturing, the primary aim of these finance companies was to promote the manufacturer's product lines. GECC, for instance, financed only GE-manufactured products, even though it could have easily, and profitably, financed other manufacturers' goods as well. Companies that used GE motors complained to government investigators in the early 1920s that if they used any non-GE motors in their machines, "General Electric Co. would refuse to sell us any motors and would refuse to allow the Purchase Corporation [GECC] to finance our dealers."[101] Though the head of the GECC, E. W. Miner, claimed they would sell motors to anyone, he confirmed that without the exclusive use of GE motors it was the "general practice" not to finance any of their products.[102] GE's goal was profits from manufacturing, not financing, particularly if those financing profits encouraged the sales of competitors' products.

Some large manufacturers, like Westinghouse, turned to existing commercial wholesale finance companies for their credit needs rather than forming an internal finance company. In 1922 Westinghouse contracted with the well-known Commercial Credit Company (CCC) of Baltimore, Maryland.[103] Unlike GECC, CCC had interests other than Westinghouse, but in exchange for Westinghouse's business its contract stipulated that CCC had to "recommend exclusively the use of the Westinghouse commercial credit plan" to distributors, dealers, and other manufacturers.[104] Despite no explicit arrangement to prevent CCC from financing Westinghouse competitors, it was understood that it could only promote Westinghouse. CCC, while financing Westinghouse, refused financing to its competitors, including the large motor manufacturer Robbins & Myers.[105] Though not explicitly a manufacturer-organized financing company, it operated largely the same.[106]

By the mid-1920s, installment financing for both retailers and consumers became necessary to remain competitive. Robbins & Myers, for instance, found that "it was losing customers on account of the credit facilities of the other large motor manufacturers."[107] A large manufacturer Robbins & Myers could create its own financing company, which it did, but for smaller manufacturers the choice was not so easy. Small manufacturers, shut off from the big wholesale finance companies, turned to the small, independent finance companies that emerged out of the auto industry, and these companies had a great deal of experience in lending to consumers.

These independent finance companies enabled small manufacturers to focus on their core business and leave the trouble of financing to someone else. A pamphlet from the Apex Electrical Distributing Company, who made home appliances, explained to its dealers that it had a financing arrangement with the Republic Finance & Investment Company because Apex's "business is to manufacture; your business is to sell; the Republic's business is to finance."[108] These independent finance companies tended to mask their role in credit relationships. By design, consumers often had no idea who the finance company was, and were often led to believe that the dealer financed the contract, like in the older, familiar forms of charge account credit that lacked the opprobrium of installment credit. Apex's pamphlet to dealers explained that "under this plan you never lose your identity with the customer. He does not know that the financing company is financing this paper for you. He deals with you alone, and knows nothing whatever about your financing arrangements." By maintaining the fiction of retailers providing the credit, it was hoped that customers would feel gratitude towards them. At the very least, when paying their bill at the store, customers might buy some additional merchandise.[109] Having the store as the collection agent for the account also provided incentives for the retailer not to lend money on accounts that were uncollectible.

Down payments and retailer collections made sure every party involved had an incentive to insure that the customer paid. For example, if a customer bought an appliance from a dealer using the GE finance company, the money would be exchanged in the following way. If the cash price of the appliance was $100, then the credit price would be set at $110.[110] The customer would give the retailer $10 as down payment and agree to pay the additional $100 over the following 10 months at $10 per month. The finance company would buy the installment contract of $100 for $83. The retailer then had, immediately, $93. The finance company, in turn, had $100 receivable over 10 months for $83. In addition, the finance company would pay the retailer a 10 percent collection fee, so upon the completion of the contract, if all payments were made, the retailer would receive an additional $10. The down payments and collection fees made sure that the retailer had a stake in the actual collection of the total debt. In total, the retailer would make $103 from the installment sale compared to $100 from the cash sale. In ten months, the finance company would earn $7 in total for an investment of $90, which was the equivalent of an annual interest rate of 21.7 percent.[111] For the finance company, profits were made on large numbers of accounts. A finance company with $100,000 worth of such accounts could earn over $20,000 in ten months. With many such accounts, the finance company could turn to the commercial bank and borrow whatever funds were needed. For the retailer, installment collections could, beyond the additional $3 in profit, produce more sales.

For customers, these installment plans, despite their apparently high interest charges, could seem like a good deal. A vacuum cleaner financed by the Republic Finance Company for $52.50 could have an interest rate of 62.4 percent per year.[112] From the customer's perspective, however, the credit charge was only $5.25, payable in five months.[113] Customers saw $5 as a worthwhile expense if they could extend their repayment whatever the interest rates. Multiplied over many borrowers, however, that $5 was an investment that returned 62 percent per year for Republic Finance.

Ironically, the arguments the finance companies made to justify lending them money—that there was little difference between a bank's and a finance company's lending—did convince some banks to enter their business, but in general banks were reluctant to invest in consumer debt during the 1920s. By the late 1920s though, some banks had begun to experiment in new fields. Though many bankers asserted that banks had no interest in consumer financing, there were notable exceptions, like National City Bank, as well as local banks, which had begun to engage in the indirect financing of installment debt. Banks that took on the functions of the newly profitable finance company were usually local banks desperate for investment opportunities.

The original reasoning behind banks not entering the consumer finance business continued to be as pertinent at the end of the decade as at the beginning. The finance business, as one small finance company owner noted, "call[ed] for a specialized credit and collection and sales department, which usually the bank [did] not have."[114] Bankers agreed. One banker reassured finance companies that banks were not in the finance business and he could "see no reason to believe that they [would]."[115] In his view "no bank [could] afford to have more than a certain proportion of its resources tied up in installment finance, and it is simpler, safer, and in the long run, probably as profitable for the banks to carry the lines of finance companies as it would be to do the business direct[ly]."[116] Lending money to finance companies did not require costly institutional adjustments of uncertain profitability. For mainstream banks, the more reliable sources of business investment continued to be primary, at least until the onset of the Great Depression.

By the end of the decade, manufacturers like GE and GM had absorbed retail finance as a key component of their business. Manufacturing profits were far greater than finance profits, but for auto finance profits could still be made. Reflecting this change, in 1929 the corporate account of GM for the first time consolidated the profits of GMAC in its annual income accounting.[117] Auto finance, if not on par with manufacturing, had come a long way from being a convenient way to deal with inventory problems. Independent finance companies, which had been born amidst the lush profits of the growing automobile industry, adapted to the increasing competition and diversified into new fields, spreading the possibility of installment credit throughout the retail world. By the end of the decade, stores and manufacturers no longer had to rely on their own capital to finance their inventories since outside companies could finance their customers. For manufacturers and retailers, the big money was still in making and selling, but finance companies filled a necessary niche in the American manufacturing economy. For consumers, the easier access to capital, through the resale of their debt, meant that they could borrow on an unprecedented scale.

Cut Off from Capital: Installment Credit without Resale

The new financial system provided merchants and borrowers a way out of the structural problems of installment credit. And finance companies offered honest merchants a way to avoid the onerous capital costs of installment selling. Reselling the debt to finance companies allowed durable goods retailers to provide the credit their customers wanted and enabled them to focus on the merchandise at the core of their business. Profits, with resellable debt, could be made just on sales alone.

While financial companies began to take over the credit services of some manufacturers and retailers, there remained significant numbers of urban retailers who did not resell their debt. As in personal loans, where loan sharks preyed on consumers, these retailers were equally exploitative. These retailers continued to finance their own sales, as they had done since before the advent of the finance company. These retailers, most importantly furniture stores, frequently used installment credit to maximize their profits by overlending to customers and then repossessing the goods when the customers could not meet their payments. The differences between retailers who held their customers' debts and those who resold them reveal the deep changes underway in the 1920s. While the finance company existed, older installment patterns continued that remained disconnected from the larger flow of capital.

This form of predatory retail would persist in the face of many other changes in retail over the century, to become the bane of poor, urban consumers everywhere. For those without alternatives, these installment sellers offered credit, but with greater risk. In the 1920s, such sellers preyed on the urban working class composed of European immigrants and African Americans. The advertising pages of African American newspapers like the Chicago *Defender* and the New York *Amsterdam News* beckoned readers with promises of the "easiest credit terms" on attractive bedroom and dining room sets.[118] Internally financed, such stores often charged more for their credit than other stores that resold their debt. For many urban customers these stores were the only option, and they ended up paying more for less on the installment system.

The laws that protected borrowers from loan sharks did not apply to predatory installment lenders. Usury laws, of course, had been weakened only recently by the small loan laws and, in many states the restrictive usury laws were still on the books. Excessive rates, usually above 3 percent, were still illegal everywhere. How then could installment contracts that typically cost several times that number be legal? In numerous state-level court cases like *GMAC v. Weinrich*, judges held that the usury laws restricting interest rates on lending were intended to protect working-class people against loan sharks, and not the perceived affluent against discretionary purchases. Unlike the numerous court cases that ruled against loan sharks, installment borrowers found no protection in the courts from high-cost installment sellers. Judge P. J. Trimble noted that the installment "purchaser is not like the needy borrower, a victim of a rapacious lender, since he can refrain from the purchase if he does not choose to pay the price asked by the seller."[119] If goods were bought on time, they were beyond the budget of the buyer, and therefore, it was thought, could not be seen as necessary. Such luxury goods could not be protected by usury laws. Seen as unnecessary, consumers who used the courts found themselves unprotected, in many ways, by usury laws. While beds and tables, particular those sold on easy credit by predatory retailers, are hard to see as luxury goods, legally they were deemed so, and as such, were outside the purview of usury laws.

The furniture industry highlights the possibilities and dangers of the installment credit system. Furniture was much more expensive in relative terms than it is today. In 1920, a four-piece bedroom suite of just middling quality cost $235, or $2,540 in 2009 dollars.[120] Furniture's expense and resale value, after all, made possible its use as collateral for small loans. For families with little savings, installment credit made such an outlay easier.

At the same time, the legal structure of installment credit created tremendous incentives for retailer duplicity. Furniture dealers selling on the installment plan retained title to the furniture until the very last payment. If the borrower defaulted, the retailer could repossess the furniture and keep all the previous payments. Unscrupulous lenders took advantage of this possibility, and tried to make that "equity" theirs. Since repossessed furniture was easy to resell, merchants could profit by their customers' defaults. Buying new inventory was a furniture retailer's greatest expense; repossession allowed retailers to sell the same merchandise twice or even more. Furniture repeatedly resold by a retailer made more money than selling new furniture. For every dollar spent by a consumer at a furniture store, about half went to the manufacturer and half to the retailer.[121] If retailers repossessed the furniture and resold it, then they would claim the whole dollar. The very structure of the installment sales contract enabled that retailer fantasy to occur in real life.

The ploy of shady furniture dealers was simple and all too common. In New York, for instance, lawyers with the Legal Aid Society, a nonprofit organization that helped the urban poor navigate the complicated legal system, spent a great deal of their time in the 1920s wrestling with the installment lending for working-class and poor borrowers. According to a Legal Aid Society report, when a young couple, "improvident persons . . . in a moment of optimism," came into the furniture store, they would be shown a new "parlor suite."[122] The salesman would showcase furniture more expensive than the couple had planned to buy, but the installment plan would bring the monthly payment to an amount the couple believed they could afford.[123] The salesman verbally reassured the couple that if there were any problems meeting the payments, the report continued, "leniency" would be shown, and the couple then would sign the contract unread.[124]

If the couple could pay off the furniture, the retailer would make money, but more profit actually would be had if they made a few payments and then defaulted. Getting a few payments out of the buyers for "a hundred or two hundred dollars" and then reselling the goods would yield a tremendous profit for the furniture houses.[125] Borrowers rarely found the leniency promised at the moment of sale when a payment was late, since such compassion was never in the contract. According to the Legal Aid Society, furniture retailers would show new furniture in the store and then deliver used furniture that had been repossessed, but "polished up to look like new."[126] The furniture the young couple had bought for "new" was probably already used. Furniture retailers who sold heavily on the installment plan had the highest profitability and the lowest inventory costs of all furniture stores. Unscrupulous furniture merchants, pushing the customers to the limits of their ability to pay, increased the likelihood that the furniture store would to be able to repossess the goods.[127] These installment sellers constituted the bulk of all furniture sales, accounting for slightly over two-thirds.[128]

Ruthless furniture sellers went to great lengths to reap the extra profit made possible by the installment credit contract. Referred to as "typical of the class of cases" involving the "unfair advantage taken of ignorant people by scheming and really dishonest firms," the Legal Aid Society annual report recounted the true story of a working-class man named "Mr. Z" (whose name was changed to protect his identity) that illustrated the lengths furniture retailers went in trying to repossess goods.[129] A middle-aged building mechanic, with "little money saved, but being assured of steady work for a considerable period of time," married and "establish[ed] a home."[130] He "furnished the girl," as the common, unfunny joke of the time put it, and the retailer furnished the furniture. Having a steady job, Mr. Z made all his weekly payments. After a period of time, he completed the full payments and went to the furniture store with his wife to finish up the paperwork and "obtain a free bill of sale."[131] While there, his wife "pressed upon him to purchase" another $350 worth of furniture.[132] The store, instead of creating a new contract, "entered up the new goods on his old account book," making both sets of purchases liable for any failure to pay.[133]

While Mr. Z worked, everything was fine, but the debt made him much more vulnerable to changing circumstances. A few months went by before tragedy struck. Mr. Z was "severely injured by being run over by a taxi" and he could no longer work.[134] Mr. Z believed the store could only repossess the last few articles he bought, but "imagine his consternation when . . . two wagons backed to his door and a City Marshal presented an order, directing that all of Mr. Z's goods be turned over."[135] Rather than an isolated incident, a 1923 Federal Trade Commission report on the furniture industry remarked that in the "several instances where inquiry was made" it found that "unless the entire account is paid the old balance is never regarded as having been paid in full."[136] Such schemes were common.

For buyers duped by such schemes, the situation could become a nightmare. Legal recourse was meaningless for buyers because the contract signed away all their rights, despite their "misfortune."[137] Buyers lost all the equity they had paid into the furniture. As a Legal Aid Society report pointed out, though such repossession was legal, the effects on the family were insidious. It led to family strife with "domestic recriminations." The money lost, also, was not insignificant. The loss of "$100 or $200 is one from which the man of small means [did] not soon recover."[138]

Overlending, of course, only made sense if the furniture dealer held title to the furniture. With the advent of the finance company, retailers found they could sell their customers' contracts. If the retailer resold the installment contracts to a finance company, as became more common over the course of the 1920s, then there was no longer an incentive to overlend. The finance company held the title to the goods and wanted its money—not some used furniture. Finance companies would not do business with retailers whose customers always defaulted, and retailers received their final payment from the finance company—which made the deal profitable for the retailer—only when their customers paid off the debt. The relationship between retailer and finance company gave retailers a strong incentive only to lend to customers who could actually pay their bills. In this way, reselling debt curbed overlending. Though reselling the debt meant retailers could no longer profit from repossession, they could lower their prices and sell a higher volume of goods. Finance companies would even give them a cut of the interest. For consumers, such retailers could offer $10 of interest on a $100 of sales, compared to the $16 of interest on $100 of sales charged by retailers who did not resell debt.[139] Retailers who sold on this system had the same profit rate and a higher volume, which meant more money. Reselling debt, then, shaped the lending and selling practices of retailers. Stores that resold debt could sell more honestly and cheaply, on average, than those that did not.[140] Only retailers who sold to the poorest customers—those actually unable to make the steady repayments—could not resell their customers' debts.

Even in the absence of overlending, job loss or illness could lead to catastrophe if borrowers were unable to meet their payments. The installment credit system created a tremendous amount of risk for the borrower. With the help of nonprofit organizations like the Legal Aid Society, dishonesty and deceit could be dealt with legally. But it was less clear how to deal with the problems of equity that grew directly out of the structure—and not the abuse—of the installment credit system. For consumers, the legalization of personal loan lending, which occurred at the same time as the expansion of installment credit, allowed borrowers an unexpected way out of the problem of equity loss. The risk of installment buying could be mitigated by consolidation loans through the newly legal small loan companies. While borrowers would rarely take out a personal loan to buy merchandise, despite the encouragement of lenders, they would use personal loans to consolidate existing debts.[141] Though the borrowers would have to confront the inspection of their finances, borrowing money from a small loan lender to repay their installment contracts rid them of the risk of losing their possessions, even if in the process they paid higher rates of interest. Though not the reason that small loan laws were passed, borrowers could use the new licensed lenders to their advantage and, in doing so, confirmed all the hesitations legislators had in passing these laws. By the late 1920s, one economist estimated the percentage of loans used to consolidate other loans, mostly installment loans, at between 50 and 75 percent.[142] Rather than just mitigating the risk of working-class life or enabling the transition to small business ownership, as the reformers had intended, by the end of the decade small loans were used to eliminate the riskiness of borrowing for the good life. While legally and institutionally separate, finance companies and small loan companies reinforced installment lending, aiding in the expansion of American indebtedness.

At the same time, separating the function of retail and finance, as many durable goods sellers could do by the end of the 1920s, reduced the incentive for fraud and deception. Reselling debt invariably reduced the cost of borrowing for consumers. For consumers who had access to these larger flows of capital and credit, installment credit offered opportunities for better living. For the urban poor whose lives were too tumultuous for their debts to be resold, borrowing remained expensive and risky, the process full of fraud and deception. For everyone else, however, the resale of installment debt brought lower prices and reputable goods, improving consumers' lives.

Installment Credit and Class Identity

Archie Chadbourne, a truck driver in Colorado, required some "luxuries." Life, for him, did "not mean merely to draw breath" but to enjoy existence. Installment credit made luxury possible for working-class consumers like Chadbourne. These borrowed-for luxuries, decried by the wealthy moralists who could easily afford them, led Chadbourne to "owe something like $681.39," which he believed he had of "as much chance to pay [off] as John D. Rockefeller [had] of dying poor," but still he did not regret his purchases.[143] He bought a car, which he justified because it would have cost the same as using the streetcar. A second-hand phonograph bought on "payments" allowed the daughters to fox-trot.[144] Enjoying life and being debt-free, a prerequisite for middle-class respectability and self-worth, was not possible for many working-class people. With installment credit, the material differences between those who did and those who did not have money lessened. Middle-class and working-class consumption converged more than every before, even if workers' incomes remained precarious. While work remained different for those employed in the factories or in offices, everyone fox-trotted and drove autos. Through installments, proponents extolled, "the laboring man with his small car can ride over the same boulevards . . . as the millionaire in his Rolls-Royce." What was class difference if everyone's consumption looked the same?

If workers had less power on the factory shop floor as union membership withered through the 1920s, they could at least have more power in the retail shop floor. Despite stagnating incomes for most Americans, credit enabled per capita consumption to rise over the 1920s.[145] Installment credit, progressive for some and dangerous for others, blurred class distinctions in the consumption arena. Did critics of debt and luxury really mean living beyond one's station when they criticized "living beyond one's means"? If, by 1925, 9 percent of American's annual retail spending was on installment goods, for both debt critics and defenders this number meant vastly different things.[146] Nine percent could be a growing threat to civilization itself, or a reasonable way for people to enjoy industrial prosperity. For working-class consumers like Chadbourne, installment credit could very well be seen as the flowering of industrial democracy, giving him the same access to consumption as wealthier citizens. Radio broadcasts sounded the same on cheap sets as on expensive sets. Similarly, "with his radio receiving set the workman can now listen to grand opera singers whose voices formerly were heard only by the socially elect." This leveling of difference in consumption even led, some argued, to "discouraging socialistic tendencies."[147] Some proponents saw the installment plan as a mark of confidence that Americans had for their future, while critics saw it as the beginning of the end of that same America.[148] Erasing class differences threatened America, but installment credit disturbed other kinds of relationships as well, most importantly gender and family.

Love, marriage and gender relations, as much as class, framed how people understood and used credit. Borrowing affected not just individuals but households, and it was through the ordering of the household, primarily through gender, that credit relationships were commonly understood. Young couples borrowed when they had little money and later, as their earnings increased, they paid off their debts. In trying to understand how credit worked, later economists of the 1950s, labeled this experience the "permanent life cycle hypothesis." Credit was not a moral failure, in this view, but a rational allocation from the future to the present, maximizing the total pleasure of a lifetime. Interest was simply the cost of this allocation. In the 1920s, as young couples found greater access to debt, installment credit allowed the life cycle hypothesis to become reality for the first time. While many young couples took advantage of the borrowing enthusiastically, the costs were frequently greater than merely the interest paid, and the choices were just as frequently made by credit managers, spouses, and bosses as by individual consumers.

Even before the ring went on the finger, the etiological narratives of debt and gender began. Single women, because of their gender's perceived intrinsic penchant for luxury, were frequently described by the media as unable to control their shopping or their credit use.[149] Women writing about credit themselves pointed to the difficulties women had in resisting buying new dresses or other "frills of life," which "women, from their earliest beginnings, have . . . found so very necessary to successful living."[150] "No young woman," one former female office worker wrote, could "be blamed for wanting to look well." The "well-dressed working girl [paid] through the nose" for clothes from "installment houses" to "compete with the wife or daughter of the richest man in town." Buying a "fur coat with a mortgage" was accompanied by "chiffon blouses, silk dresses and flimsy underwear" bought with a "dollar down the promise of a dollar a week would secure."[151] Borrowing to the limits, a woman who became "sick" or had another kind of "emergency" would miss a payment and then the collector would descend. In one writer's work experience, "not a week passed without some concern attempting to attach the salary of one or more of the girls with whom [she] was employed."[152] Siding with the "delinquent" rather than the collector, the writer believed her "moral sense . . . [had] atrophied." Yet if the moral sense atrophied, it was only from the economic reality of being a working girl. Dressing well, argued female debtors writing about their lives, enabled them to catch a better-paid man. In the quest to be attractive and worth marrying, which would end the need to *be* a working girl, these women, it was commonly thought, overextended themselves, endangering both their finances and their morality, but such choices reflected not moral improvidence but strategic choices made given the inequality of income between men and women.[153]

Anecdotes about young office girls buying too many clothes were common in anti-credit narratives of the 1920s, yet the lessons learned by such narratives were not limited to prescriptive gender roles but, more subtly, offered instruction in the tacit trust between borrower and lender. Though sellers had incentives to push unnecessary purchases on the buyers, rarely did the popular press blame retailers for the rise in installment credit. More frequently, the media encouraged buyers to trust the guidance of store credit managers. The common intuition was that no "credit man" would ever encourage the excessive use of credit because then they would not get paid. Such reasoning demanded that persistent indebtedness was caused by something or someone other than credit managers.

A story presented in *American Mercury*, the prominent literary magazine edited by H. L. Mencken, was typical of narratives surrounding female customers and credit managers. Recounted by a Cleveland credit manager, it was one of many stories involving female debtors who didn't pay. A "young woman" approaches the retail credit manager of a department store. She works in the office of a "large manufacturing concern" and her credit had been "shut off." The benevolently rational credit manager explains to her that her "trouble . . . was that she had never taken the trouble to face the facts." The woman "admitted that she knew she was in debt, but did not know exactly how much." After a long talk, with the woman "finally admit[ing] that [he] was right," she forswore the "new dress" and acknowledged that her present dress was "practically new," and then "agreed to pay her bills." The woman "stuck to it until she had paid every cent and had fully restored her credit." Her income was, naturally, sufficient to repay all of her debts but just had to be correctly budgeted.[154]

Note the assumptions in this *American Mercury* story: that debt is only for luxury; that creditors benevolently watch over the budgets of debtors; and that rational budgeting can tame even the most oversized debt. Though young office women were certainly under pressure to dress well for reasons both economic and personal, the purpose of the story goes beyond a woman's fondness for clothes or even simple assumptions about gender stereotypes. The cause of excessive indebtedness is the desire for "new things" when "old clothes" would still do. Desire is at the root of debt. As important is the role of the credit manager. He "shuts off" the woman's credit when she is too far in debt and chastises her behavior. Though initially resistant, she acknowledges the rational truth of his argument. This reasoned accounting was the only way to contain desire, and the credit manager helps the customer exert control. The credit manager would never extend credit that the borrower could not repay. For the credit manager, the answer to the question, "What should a man do to keep his credit good when he simply hasn't got the money or has had sickness or bad luck?" went unanswered. This event, as the credit manager tells it, is not the norm. Merchants and creditors would understand. He advises the sick or unemployed debtor to "tell the truth," since "honesty of purpose will carry you through and over the troublesome places."[155] These assumptions about the creditor/debtor relationship were both contested by debtors and challenged by the changing purposes and institutions of debt.

Blaming women for borrowing money did not end once the single girl got married. Installment credit enabled young consumers to meet their material expectations for luxury and love, but with serious consequences if payments were missed. The common slogan, "You Furnish The Girl," used in sales promotions to young men looking to marry, expressed all the logic of this system. The young man provides the woman and retailers provide the goods that are, in this formulation, equally necessary for a happy marriage. Happiness could be had at once, but at a price.

In a 1926 *Collier's* article entitled *You Furnish the Girl*, a prospective fiancée was ring shopping in a "sleek, smart jewelry shop just off Fifth Avenue." The young man, with only $400 to spend, inquires about a "frost of platinum set with a square ice of diamond," which turns out to be five times as expensive—$2,000. The salesman, "with no change of expression," informs him that he can use the $400 as down payment and pay the balance over eighteen months at $90 a month, or $1,620 in total. The interest of $20 for $2,000 over 18 months was not discussed in the article, but the young man's reaction was when he exclaimed, "but I could not do that *here*, could I? That's the installment plan." The salesman informed him that it was called the "deferred payment" plan and they "do it as an accommodation when people do not wish to tie up so much money at once."[156] The point of the story was to show how the installment plan, while maintaining its working-class stigma, had in practice if not name penetrated all strata of society, even Fifth Avenue jewelry stores.

Marriage and settling down into middle-class life was seen as requiring a certain set of possessions to go along with it. Many writers on debt seemed to agree with one married woman, pseudonymously calling herself "Alice," who wrote "the vicious chain of being in debt . . . was forged when I married and set up a home."[157] The "bridal outfit" had been charged, the husband had spent "several hundred dollars" on his cutaway and "a few weeks later the bills began to come in."[158] She had "naturally" given up her job, and they both resolved "to start [their new life] on a cash basis." Before the advent of installment credit, a respectable husband-to-be was expected to save until he could afford to outfit a home, or the couple lived in penury. Installment credit enabled an entirely new possibility.

The installment plan, then, enabled true romantic love. Marriage ought not have to be delayed merely for lack of savings. Couples could marry and borrow money for the all the furniture, house wares, and other signifying accoutrement of respectable married life, but in most places, unlike the ring shop, the interest would not be 1 percent for eighteen months. Borrowing for furniture by the 1920s was, as one article on marriage and credit put it, "down to a science."[159] As Alice noticed, "in [their] new little home there were constantly things needed, and [their] credit was good in many places." Beyond household goods, there were also the babies, "two of them in fairly quick succession," which created large doctor's bill that took five years to pay off.[160] From buying the ring, to financing the white dress, to paying for baby's crib, the goods of marriage could be had on credit. Yet for married people, installment credit created new sets of problems and opportunities to negotiate, often in ways tied to ideas of gender and self-respect.

Once married, borrowers trusted the credit department not to lend them too much money. The "credit man," who decided how much credit to extend, was conservative and could be expected not to give the borrower more than they could easily repay. Lending was seen not only as an economic relation but a beneficent social relation, from the generous to the grateful. Buyers habituated to charge accounts, where the seller had to be coaxed into giving more credit. They saw credit as something carefully rationed by stores—reluctantly given and never in excess. Retailers played up this image. The president of the department store Lord & Taylor, for example, affirmed this guardian image of the credit manager of a store as someone who "watches the purchase accounts of charge customers and promptly discourages their buying beyond the danger point."[161] The overextended lender would quickly fail, it was thought, and default endangered both the firm and the borrower.

Excessive debt, as credit managers explained, was the fault of weak husbands, not retailers who overlent; irresponsible husbands refused to control their wives, displacing the burden of control to retailers. Prudent husbands, credit managers insisted, would manage their wives, who, due to the weakness of their sex, could not be blamed for their natural excesses. A credit man explained that "many men give their wives free rein in buying on credit . . . but do not permit the women to handle the money directly."[162] These husbands pay the bills as they come due, but the credit man suggested that it would be better to "put their wives on a regular allowance, and let them manage their own finances."[163] The president of the Chicago Association of Credit Men, John McConnell, claimed to know "of instances in which men [had] intentionally permitted their wives' accounts to lapse into delinquency in order that the stores would refuse further credit."[164] Though letting the accounts go "injures seriously the credit of both the wife and the husband," the implicit truth was that it would be the only way that the weak husband could control his wife's spending, and that the wife would, on her own, never do so. The answers on how to deal with temptations and limitations of installment credit were often cast in terms of proper household management, which usually meant gender relations between husbands and wives, and trusting stores' credit managers, which usually meant class deference. In all these narratives of consumption, strong men with middle-class values, whether credit managers or husbands, were seen as necessary to control women's spending.

The use of credit, however, was thought to sap that male strength. While credit could allow the purchase of goods that signified respectable marriage, it also threatened the very foundations of that middle-class life. For men, indebtedness could shake the moral foundations of success, turning, as one autobiographical account of debt in the *Saturday Evening Post* warned, a successful man into a "coward." Debt transformed a healthy, thirty-two year old man of "success" into a "deadbeat" with "gray hairs and lines in [his] face from worry." Not only his body changed but his demeanor. He "los[t] a fairly decent disposition and [became] nervous, irritable, and disagreeable."[165] Once in debt, the moral erosion it caused from his feelings of being a "failure and a cheat," made him unable to conduct his business. He lost his "nerve and his wit."[166]

The debt that tortured this anonymous debtor accreted gradually. Though he earned "four to six thousand dollars a year," he and his family managed to spend more than that, adding only "six or seven hundred dollars" each year.[167] He cited doctor's bills as the principal source of debt. His first baby "swelled the total in red" and subsequent "exorbitant" bills only added to that.[168] He felt the worst about these bills since he considered the doctor his "personal friend," yet he was still unable to pay. Aside from the doctor bills, the greatest danger to his budget was the consumer credit, "which sets a trap for many ambitious and hopeful young people when it offers to make marrying . . . easy and simple by pay-by-the-month system."

Young couples, the autobiographical debtor opined, should go without rather than go into debt. The eager "young man who needs a dress suit to be married in would be far better off staying unmarried than to start into life with a monthly payment," the debtor felt.[169] Typically, he felt, "young people saddle themselves with more than they can carry, fall behind in payments, get entangled, lose heart and the goods thus contracted for, and eventually become victims of debtor cowardice."[170] Without charge accounts and installment credit, buyers would spend their money at "cash stores" and "find satisfactory substitutes much cheaper" and without the danger of "contracting debtor's cowardice." The easy satisfaction of desires made possible by the charge account, which in the writer's case included an odd fondness for leather-bound board games, preyed upon a weakness of character that debt only exacerbated.[171]

For those who could control their desires and keep their jobs, the installment system allowed American consumers to lead a better life, but for those who relied on the discipline of the lender or the good luck of the labor market, the loose supply of credit could be calamitous. Gender and class expectations guided this control—both for borrowers and lenders—reinforcing expectations and structuring the consequences of borrowing in this new credit-abundant world.

At the End of the New Era

Despite its newfound ubiquity, the future of installment credit seemed uncertain at the end of the 1920s. Was it to be the salvation of American industry or the source of its economic and moral ruin? To most people, installment credit was simply a way to buy a car and some furniture.

Those who helped create it, however, like John Raskob of GMAC, believed that "this form of banking . . . will one day grow to gigantic proportions[,] selling durable goods to deserving people on proper terms."[172] Raskob even imagined consumer credit as an alternative to socialism, since credit might make possible "the dream haven of plenty for everybody and fair shake for all, which the socialists have pointed out to mankind. But our route will be by the capitalist road of upbuilding rather than by the socialistic road of tearing down."[173]

Consumer use, retailer sales, and financier profits—rather than eschatological or utopian theories—won the debates on installment credit in the middle of the decade. Businesses prospered using it. Consumers had more of the modern goods that defined the good life. Anxious inquiries from frenzied and fearful businessmen during 1924 and 1925 to the U.S. Chamber of Commerce, disappeared suddenly in 1926. A representative there remarked "that all that worry and puzzlement seems to have dropped off" as installment credit became a common part of American life.[174] The editorial page of *Collier's* opined that "the installment business, now a five-billion-dollar affair, [made] for prosperity so long as installment buyers [kept] their head."[175] Keeping one's head meant obeying a budget for the "required payments" with "regular income," buying only high quality goods at a reasonable (regardless of installments) price, and buying only necessary goods.[176] Though all these tests seemed objective, what was "necessary," "affordable," and "reasonably priced" was highly uncertain.

The consequences of not keeping one's head, however, were not. Ill-considered use of credit was, as an author in *Collier's* admonished, "bad for you and bad for the country."[177] As good as judicious use of credit was for the country, its misuse could be equally as bad. America's downfall fueled the fears of installment critics. Even to GM, the arrival of a depression borne of profligate credit would seem to be a justified "day of reckoning."[178] The seeming profits of consumer finance drove much of the criticism. Vocal debt critic Senator James Couzens attacked the way in which finance pulled profits out of communities. Every dollar spent on installments was, Couzens believed, a "dollar sent . . . to some finance corporation lessen[ing] the purchasing power of that community." Finance companies in his view were distant parasites drawing money out of small-town America. An avid admirer of Henry Ford, the well-known manufacturer and critic of finance companies, Couzens quoted Ford at length: "when financiers flourish on credit, you may depend on it that plenty of other people are withering."[179] Large finance companies, Couzens warned, made "substantial profits" from installment buyers. If installment plans enabled consumers to take part in the pleasures of industry, it was just another way in which the worker was separated from his hard-earned dollar. Rather than connecting consumers with capital, consumer credit, in this view, disconnected Americans from their communities.

As industrial lenders and finance companies proliferated and profited, they grew fearful of commercial bankers interfering with their business. Commercial bankers, outside of a few experimental personal loan departments, however, wanted nothing to do with either one. Small loan lending was too different and too risky. Installment credit undermined the values of thrift and production that banks promoted. Most importantly, profits from business investments and margin loans on stocks were too profitable and these new types of finance too different. By the end of the 1920s, consumer credit had taken radically new forms and meanings. Even as it had grown out of that society's very demands and possibilities, debt extended into all strata of industrial, urban society—presenting a personal face but backed by increasingly powerful, increasingly impersonal institutions.

The new supply of credit offered better lives for wage-earning and salaried Americans. In the 1920s, black and white, native and immigrant, the working-class world of urban credit was the same. That similarity was soon to end as lines of race would definitively cross lines of class. For white Americans, a more stable world of growth would soon be founded amidst the recovery from the economic collapse of the Great Depression. A new credit system fostered by the federal government, drawing on and extending the developments of the 1920s, would provide white Americans new opportunities to finance abundant postwar lives.[180] While white Americans of all classes would enjoy a new credit system to provide a better life that was sustained by the flow of capital, urban black Americans would find themselves shut out. The urban retail economy would remain predatory and stagnant, as this new credit system developed in the suburbs In the next chapter, we will see how federal mortgage policies, intentionally and unintentionally, brought these changes to the center of American debt practices, extending the nascent installment system in vertiginous new directions.