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NATIONAL BUREAU OF ECONOMIC RESEARCH

*Studies in Consumer Instalment Financing:*  
Number Nine

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# Consumer Instalment Credit and Economic Fluctuations

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BY GOTTFRIED HABERLER

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*Studies in Consumer Instalment Financing*

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Despite the efforts that were made to provide an adequate body of factual material for Dr. Haberler's use, there remained many gaps in data that could not be filled. It was not feasible, for example, except for a few series, to carry our monthly estimates of the volume of instalment credit farther back than 1929, and therefore he was handicapped in his study by the shortness of the time period for which credit series were available. Also, it was not possible to develop time series showing the specific uses which consumers have made of instalment credit funds; such series might have facilitated comparisons of fluctuations in instalment credit and the production of particular consumer goods. Nor could comprehensive series of instalment credit terms and charges be provided over any extended period of time. These gaps in the available data indicate but a few of the obstacles to inquiry in this field. Dr. Haberler has taken the facts that we were able to assemble and, as the only feasible method of approach, has subjected them to theoretical analysis based on carefully and critically selected hypotheses. To this task, directed toward the questions of how consumer instalment credit affects economic fluctuations and whether it tends to accentuate economic instability, he has brought a rich knowledge of business cycle theories and of general economics.

The publication of this study is especially timely. On August 9, 1941, the President, with a view to restraining instalment credit during the period of national emergency, issued an Executive Order authorizing the Board of Governors of the Federal Reserve System to regulate the terms and conditions under which such credit shall be extended to consumers. Shortly afterward the Board issued a comprehensive regulation, known as Regulation W and effective as of September 1, 1941, with the threefold objective of: checking demand for consumer goods manufactured from materials essential to national defense; restraining the inflationary influence of instalment credit during the period of the emergency; and developing a backlog of consumer credit demand for the post-emergency period. This regulation rep-

resents the first concrete social recognition of the role of instalment credit in economic fluctuations, and therefore it has a far-reaching significance in addition to its immediate objectives. Dr. Haberler's analysis should be extremely helpful to those who desire to obtain specific background for evaluating the possible effectiveness of this regulation.

RALPH A. YOUNG

*Director, Financial Research Program*

February 1942

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## Preface

THE present volume is the ninth of the studies in consumer instalment financing prepared under the Financial Research Program of the National Bureau of Economic Research. Other studies deal with the types of institutions engaged in consumer instalment lending and the economic and legal conditions affecting their activities; with estimates of the volume of consumer instalment credit during the period 1929-38; with the statistical pattern of consumer debt as of 1935-36; and with statistical tests of the relation of borrower characteristics and contract terms to credit risk. The entire series has been prepared as one phase of a broad program of financial research, launched in 1938 under grants from the Association of Reserve City Bankers and the Rockefeller Foundation.

The present volume was first projected as the capstone study of the consumer instalment credit investigation, and therefore its preparation was not undertaken until the collection and analysis of basic materials for other studies were well advanced. In February 1939 Gottfried Haberler, on leave of absence from Harvard University, joined the financial research staff to initiate the inquiry. Until October he gave his full time to the work, and thereafter carried his study to completion along with the performance of his regular university duties. During the period in which he was a full-time member of our staff he collaborated also in directing the collection and analysis of material for the other studies. His own needs for data gave his research colleagues many leads for inquiry, and his suggestions for study stimulated much significant analysis that otherwise might have been overlooked.

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## Author's Acknowledgments

I AM greatly indebted to many scholars for helpful suggestions and constructive criticism of the manuscript in various stages. Several specific instances are mentioned in footnotes throughout the book. A great debt of gratitude is due to members of the research staff of the National Bureau of Economic Research. Moses Abramovitz, Simon Kuznets, and especially Arthur F. Burns and W. C. Mitchell contributed many useful suggestions. Raymond J. Saulnier worked carefully through large parts of the manuscript and uncovered many slips. Winfield W. Rieffler's critical sense, David Durand's statistical resourcefulness and Duncan McC. Holthausen's knowledge of statistical facts saved me from many pitfalls and misinterpretations of the material. Bonnar Brown, Seymour E. Harris, Albert G. Hart, M. R. Neifeld, Hans Neisser, C. Reinold Noyes, Rolf Nugent, W. C. Plummer and Beardsley Ruml read the manuscript and offered constructive criticism. Helpful suggestions on various aspects of the subject were received also from Dorothy S. Brady, Fred V. Chew, William T. Foster, Arthur W. Newton and Joseph L. Snider. Elizabeth Todd was not only in complete charge of the editorial work but rewrote many passages and helped to rearrange the material in a logical order. Without her patient work the book would be longer but less readable.

My greatest obligation, however, is due to Ralph A. Young, Director of the Financial Research Program of the National Bureau of Economic Research. Without his unremitting encouragement, coordinating effort, unflinching counsel and great knowledge of persons, facts and figures in all fields of consumer instalment credit, this book could not have been written. When listening patiently to unending—partly un-

answerable—queries concerning the availability (or more frequently unavailability) of statistical material and other factual evidence, and the validity of possible hypotheses, he must sometimes have felt like the sage in the proverb: one theorist can ask more questions than a hundred experts can possibly answer.

In spite of generous help the author must assume full responsibility for all shortcomings of the book; these may be due sometimes to his holding out against, sometimes to his giving in to, friendly criticism.

An effort has been made to restrict the use of highly technical terms and to make the argument everywhere understandable for the non-technical reader, although this has made many passages longer and less elegant than they might otherwise be. Some technical material has been relegated to the Appendices.

The manuscript was completed in the Autumn of 1941, but the passages and data in Chapter 6 and Appendix C concerning the new regulation of instalment credit, initiated by the President's Executive Order of August 9, 1941, have been brought up to date as of April 1942.

GOTTFRIED HABERLER  
*Harvard University*



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