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Introduction

VERY few persons can be unaware of the spectacular rise of consumer credit in recent years. The evidences are all around us. We pick up a newspaper and learn that a great department store has modified its claim that "no one is in debt" to it and has devised a scheme for instalment payments to keep its tremendous stocks of merchandise in motion. We walk down the avenue and notice that a discreet sign in the window of a conservative banking institution invites us to discuss our need for immediate cash with a representative of its new personal loan department. If we twirl the radio dial at almost any hour of the day we become increasingly conscious of the vast array of goods and services that we are urged to acquire at once and to pay for "out of income."

The creation of new facilities and the expansion of older agencies testify to the rapid spread of consumer credit throughout the United States. These developments are, indeed, so much a matter of common observation that many persons have come to assume that instalment credit, cash loan credit and charge account credit are employed intensively by all strata of the population. At the same time there has been relatively little statistical information concerning the income levels, occupational groups, types of community and regions of the country in which the use of consumer credit has been concentrated.

AIM AND SCOPE

This study seeks to fill some of the gaps in our knowledge by presenting a statistical analysis of the pattern of consumer

debt for the period 1935-36, and thus delineating the broad outlines of the market for consumer credit. It contains estimates of the percentage of non-relief families whose instalment debt, cash loan debt and charge account debt either increased or decreased in this period, and of the distribution of the net increase¹ in these forms of indebtedness. It indicates also, for each type of debt, which income groups were increasing and which were decreasing their obligations, the distribution of the gross increase² and the gross decrease³ in debt, and the addition to or drain upon income represented by these magnitudes. Finally it shows how families in different types of community and in the five regions of the country responded to the three forms of consumer credit which go to make up the entire market. The period to which the data apply was characterized by marked business activity, and the estimates therefore reflect the behavior pattern of consumers in relation to instalment, cash loan and charge account credit during the expansion phase of one business cycle.

Additional data, available only for instalment debt, have made possible a determination of the principal commodities for which families used this type of credit during 1935-36. Upon these data are based estimates of the percentage of families in different income groups which had a net change in debt for the purchase of automobiles, furniture, electric refrigerators, radios, other electric equipment and miscellaneous articles. Further breakdowns of the instalment debt data have permitted a calculation of the extent of use of such credit among wage-earning families as compared with families in other non-farming occupations, and a comparison of the debt patterns of families grouped according to the number of persons they comprised.

¹ Net increase in debt equals gross increase minus gross decrease.

² Gross increase equals the sum of the increases for families having a net increase in debt.

³ Gross decrease equals the sum of the decreases for families having a net decrease in debt.

SOURCE AND LIMITATIONS OF THE DATA

The Study of Consumer Purchases,⁴ which was the source of the basic data used in the subsequent statistical analyses, was a project of the Works Progress Administration. It consisted of an extensive field investigation conducted during 1936 in various communities throughout the United States. Data were collected in 51 cities, 140 villages and 66 farm counties in 30 states, chosen to represent different geographic regions, types of community and types of farming area. By means of this field investigation, information concerning expenditures and increases or decreases in instalment, cash loan and charge account debt during the preceding year⁵ was obtained from some 60,000 families, all non-relief and mostly native white.⁶

There is one important qualification regarding the basic data that the reader is urged constantly to bear in mind. On the original schedule the information obtained from each family referred only to *net change* in each type of debt during the year and not to the existence of instalment, cash loan and

⁴ The Study of Consumer Purchases is more completely described in National Resources Committee, *Consumer Expenditures in the United States* (1939), pp. 102-20 and in publications of the Bureau of Labor Statistics and the Bureau of Home Economics which present other analyses of the data. The tabulations of instalment debt in metropolises, large and middle-sized cities and small cities in the East Central and New England regions have been published in U. S. Bureau of Labor Statistics, Bulletin 648, Volume VIII, as *Changes in Assets and Liabilities in Selected Cities*. The data on cash loan and charge account debt for the communities just enumerated, also tabulated by the Bureau of Labor Statistics, are, however, unpublished, as are also the data, tabulated by the Bureau of Home Economics, on instalment, cash loan and charge account debt for small cities in regions other than the East Central and New England areas and for all village and farm communities.

⁵ The majority of the schedules covered the year ending approximately June 30, 1936, but some applied to the calendar year 1935, and others to the year immediately preceding the date of interview—in other words, a twelve-month period ending some time before or after June 30, 1936. In no case, however, did the schedule year end before December 1935, or after December 1936.

⁶ In the South, and in New York City and large cities in the North Central region, expenditure schedules were obtained also from Negro non-relief families.

charge account debt or to the total amount of such debt. Net change means simply the net increase or the net decrease in the balance due on instalment purchases, cash loans or charge account purchases. In the field of instalment credit, for example, a family that owed \$100 at the beginning of the year for an automobile purchased on the instalment plan and retired this debt completely during the year, would have reported a net decrease in debt of \$100. If the same family had bought another car during the year, for which purchase there was an unpaid balance of \$300 at the end of the year, it would have reported a net increase in instalment debt of \$200. Figures on the total dollar amount of each type of consumer debt, if they had been available, would have been easier to understand and perhaps somewhat more informative, but for most purposes data on the net change in debt have proven equally significant.

The method of reporting indebtedness employed by the survey has necessarily made impossible the inclusion in the data of families owing exactly as much at the end of the year as at the beginning for any type of consumer debt, or of families that had incurred a debt of this kind during the year and paid it off completely by the end of the year. The data do, on the other hand, cover families whose indebtedness existing at the beginning of the year was entirely liquidated by the end of the period.⁷

The estimates of instalment debt presented in this study cannot be considered completely representative of the number of families indebted during the year, since they do not take into account instalment debt of relatively short duration, that is, debt contracted after the beginning and paid off before

⁷ It may be contended that the data are subject to bias because the persons interrogated would have been more apt to remember and report increases rather than decreases in debt. While there may, for this reason, be some slight bias, the method employed to balance total income against total expenditures and net changes in assets and liabilities for each schedule undoubtedly eliminated the possibility of any pronounced distortion.

the end of the schedule year. Since instalment credit is most often applied to commodities sold on fairly long terms it is unlikely, however, that the number of families having recourse to it is underestimated to any great degree. Similarly for cash loan debt it may be assumed that the number of families having a net change in debt does not seriously misrepresent the number of families indebted for such loans during the year. But with regard to charge account debt it must be admitted at the outset that the limitations of the data have led to an undervaluation of the number of families indebted for charge purchases during the year; this type of credit frequently runs for very short terms and a large percentage of families which must have made charge purchases and paid them off during the period under discussion could not have reported a net change under the terms of the schedule. For all three types of consumer credit, short-term obligations in existence either at the beginning or at the end of the year are included, if they do reflect a net change in debt.

In order to avoid continual use of the expression "families having a net change in debt," the term "families indebted" has been adopted as a synonym to refer to families which during the year 1935-36 had increased or decreased their obligations.⁸ For similar reasons, the terms "frequency of debt" and "extent of use of instalment (or cash loan or charge account) credit" are employed to represent the percent of families having a net change in debt or the percent of families indebted during the year.

The relation of these terms to the actual data should be made explicit. Figures showing the number of families with a net change in debt necessarily overestimate the number of families indebted at the end of the year, because the category

⁸ As has been pointed out, data on net change in debt do not seriously underestimate the number of families indebted during the period under discussion for either instalment purchases or cash loans. Special care must, however, be applied to the interpretation of the term "families indebted" in connection with the discussion of the pattern of charge account debt in Chapters 4 and 5.

of families decreasing debt includes both those still indebted at the end of the period and those whose obligations have been entirely liquidated. It is impossible from available data to gauge the importance of this latter group and thus to indicate the degree to which the number of families indebted at the end of the year is overestimated. The number of families increasing debt would be the minimum number that could be described as indebted at the end of the year.

It is important also to avoid misinterpretation of the phrase "extent of use of instalment (or cash loan or charge account) credit." As the term is used here, it pertains to the percent of families making payments on such obligations, whether incurred in the given year or earlier—in other words, to the percent of families having a net change in debt in the period covered.⁹ Thus "extent of use" does not mean simply the percent of families contracting debts for instalment or charge account purchases or for cash loans during the year. Such an interpretation of the term, it is true, is approximated in the data by the percent of families increasing debt, but since some families which were decreasing rather than increasing debt may also have incurred new debts whose effect is counterbalanced by repayments on old debts, the percent of families increasing debt must be considered only a rough indication of the proportion of families making new purchases or contracting new loans during 1935-36.

Another limitation of the data arises from the fact that the original expenditure schedules were obtained from *non-relief* families, for the most part native white. Single individuals were excluded,¹⁰ as were families on relief or of foreign

⁹ Although the discrepancy is undoubtedly slight, it should not be forgotten that families having a net change in debt and families making instalment payments during the year are not actually identical, since families owing as much at the end as at the beginning of the year, and families incurring and paying off obligations within the year, would not be included among the former.

¹⁰ Except in two cities, Chicago and Portland (Oregon), but these data have not been incorporated in our estimates.

birth. There are no data to indicate whether or not the instalment, cash loan and charge account debt patterns for the families actually covered would apply to these groups as well. Finally, in each type of community data are lacking for certain income classes—the very high income groups in some cases, the very low in others.

Appendix E to this study discusses in detail these limitations in the nature and coverage of the data and assesses their bearing on the final results. At this point we shall simply mention certain major qualifications which it would be advisable for the reader to remember. In the first place, since the data which serve as a basis for this study refer to net change in debt, no effort is made to estimate the total debt outstanding; ¹¹ we present here only estimates of the *changes* in outstanding indebtedness for the 12-month period extending approximately from July 1935 to June 1936.¹² In the second place, our estimates of the total number of families having a net change in debt and of the total dollar volume of changes in debt are based not on a complete enumeration but upon the extension of a sample comprising approximately 60,000 families.¹³ Appendix E outlines the methods by which national

¹¹ Such estimates are presented in National Bureau of Economic Research (Financial Research Program), *The Volume of Consumer Instalment Credit, 1929-38*, by Duncan Holthausen in collaboration with Malcolm Merriam and Rolf Nugent (ms. 1940).

¹² See above, p. 13, footnote 5, and below, Appendix E.

¹³ This sample represents only a small proportion of the total number of non-relief families in the country. The degree of possible error depends, however, not on the percentage of coverage but rather on the absolute number of cases on which the estimates are based and upon their representativeness of the various types of families in the population. The several government agencies concerned with the Study of Consumer Purchases, from which the data for this study were obtained, applied a variety of techniques designed to insure the representativeness of the sample. The collections and analyses of the data were planned with meticulous attention to detail, the personnel was carefully selected and trained, a system of check interviewing was devised to render the schedules reliable, and methods were adopted to insure the randomness of the sample. The National Resources Committee concludes that "representativeness has been achieved in this sample to an extent far greater than in

estimates of consumer debt were built up from this sample. Furthermore, for the analysis of instalment debt by type of commodity purchased, the estimates are derived from a smaller sample, consisting of families living in the larger-sized communities. Finally, it must not be forgotten that the data apply to a single year only, occurring in a period of business expansion, and that the detailed pattern of consumer debt worked out from these figures is pertinent only to a cyclical upswing. By no means may it be assumed that a pattern of debt similar in all respects would prevail during a deflationary period. For instance, the pattern developed in this study indicates that during 1935-36 there was a net increase in consumer debt outstanding, whereas a study of the volume of consumer instalment debt for the period 1929-38 shows that there was a net decrease in outstanding debt in periods of recession.¹⁴ During periods of slackening economic activity, then, one might expect a net decrease rather than a net increase in consumer debt. Such a situation might well be accompanied by a somewhat different distribution of the families indebted for retail instalment purchases, cash loan or charge account purchases, for during a slump the lower-income groups might find it less easy to obtain credit. We have noted, too, that for the several types of consumer credit lower-income families tended to increase indebtedness to a greater extent than did higher-income families during the expansion period 1935-36. An assumption that such a tendency would persist during a deflationary period appears unwarranted. On the other hand, it seems fairly reasonable to assume that in general the variations in the use of consumer credit according to types of community and regions of the country which have been found for 1935-36 would persist in other phases of the business cycle.

any previous study of the consumption habits of the American people." National Resources Committee, *Consumer Expenditures in the United States* (1939), p. 107.

¹⁴ Holthausen, Merriam and Nugent, *op. cit.*, Table C-1.