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Studies in Consumer Instalment Financing:
Number Nine

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Consumer Instalment Credit and Economic Fluctuations

BY GOTTFRIED HABERLER

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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.

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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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.

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Table of Contents

PREFACE	ix
AUTHOR'S ACKNOWLEDGMENTS	xii
LIST OF TABLES	xvii
LIST OF CHARTS	xviii
SUMMARY	1
1. TYPES AND INSTITUTIONS OF INSTALMENT CREDIT	(18-29)
Meaning of Consumer Instalment Credit	18
Types and Agencies of Consumer Instalment Credit	22
2. WAYS IN WHICH INSTALMENT CREDIT MAY INFLUENCE	
ECONOMIC STABILITY	(30-52)
Changes in Aggregate Expenditure	30
<i>The Supply Situation</i>	33
<i>The Demand Situation</i>	39
Shifts in Relative Demand for Particular Commodities	50
3. MEASUREMENT OF INSTALMENT CREDIT FOR CYCLICAL	
ANALYSIS	(53-80)
Typical Interrelationships of the Various Measures	54
Cyclical Behavior of the Various Measures	62
Economic Significance of the Various Magnitudes	69
4. CAUSES OF INSTALMENT CREDIT FLUCTUATIONS	(81-115)
Trend Factors	82
Cyclical Factors	84
<i>Analysis of Supply</i>	89
<i>Analysis of Demand</i>	98
Concluding Remarks	114

5. ECONOMIC CONSEQUENCES OF INSTALMENT CREDIT FLUCTUATIONS	(116-57)
Effects of a Structural Expansion	117
Effects of a Cessation or Curtailment of Structural Growth	122
Effects of Structural Credit Expansion on Particular Industries	127
Effects of Cyclical Fluctuations	132
Comparative Quantitative Importance	145
6. THE PROBLEM OF CONTROL OF INSTALMENT CREDIT	(158-75)
Nature of the Problem	158
Methods of Credit Control	161
Purpose and Effectiveness of Control	165
APPENDIX A—FURTHER OBSERVATIONS ON THE RELATIONS BETWEEN CONSUMER SAVING AND INSTALMENT CREDIT	(179-94)
The Concepts of Saving and Investment	179
Possible Effects of Instalment Credit on Consumer Saving	186
Supplementary Data on Consumer Saving	189
APPENDIX B—A MATHEMATICAL ANALYSIS OF THE RELATIONSHIP OF NEW CREDITS, TOTAL CREDITS OUTSTANDING AND NET CREDIT CHANGE—by Paul A. Samuelson	(197-205)
APPENDIX C—TEXTS OF DOCUMENTS REGARDING GOVERNMENT REGULATION OF CONSUMER INSTALMENT CREDIT	(209-32)
Executive Order No. 8843	209
Foreword	215
Regulation W	215
Supplement to Regulation W	229
Appendix to Regulation W	232
INDEX	233

List of Tables

1. Principal Sources of Funds of Instalment Credit Agencies in Various Years During 1929-40, in Percent of Total Assets	36-37
2. Timing and Amplitude of Movements in End-of-Month Outstandings in Consumer Instalment Credit, 1929-40	68
3. Monthly Instalment Payments Required on Sample Automobile and Refrigerator Contracts, Under Different Interest Rates	101
4. Monthly Instalment Payments Required on an Original Unpaid Balance of \$100, Under Different Interest Rates and Contract Lengths	102
5. Volume of Life Insurance Policy Loans, Year-End Outstandings and Annual Change in Outstandings, 1930-36	111
6. Annual Net Change in Consumer Instalment Credit in Relation to Other Magnitudes, 1929-40	146-48
A-1. Debt and Savings Data on Non-Relief Families that Increased Their Instalment Debt During the Year 1935-36, by Income Level	191
A-2. Debt and Savings Data on Non-Relief Families that Decreased Their Instalment Debt During the Year 1935-36, by Income Level	192
A-3. Percentage Distribution of Non-Relief Families Reporting a Net Surplus, a Net Deficit or No Change in Assets and Liabilities, During the Year 1935-36, by Income Level	193

List of Charts

I. Monthly New Credits, Repayments and Net Credit Change, and End-of-Month Total Outstandings, for Two Types of Retail Establishments, 1926-40	56
II. Monthly New Credits, Repayments and Net Credit Change, and End-of-Month Total Outstandings, for Two Types of Cash-Lending Institutions, 1929-40	57
III. Monthly New Credits Extended by Automobile Dealers, 1932-40, and End-of-Month Total Outstandings Computed on the Basis of Varying Contract Lengths	61
IV. Monthly New Credits, Repayments and Net Credit Change, and End-of-Month Total Outstandings, for Five Types of Retail Establishments Combined, 1929-40	65
V. Monthly Net Credit Change and End-of-Month Total Outstandings for Four Types of Cash-Lending Institutions Combined, 1929-40	66
VI. End-of-Month Total Outstandings in Consumer Instalment Credit, 1929-40	67
VII. Hypothetical End-of-Month Total Outstandings in Consumer Instalment Credit, and Corresponding Monthly Net Credit Change	74
VIII. Indices of Finance and Insurance Charges Applicable in Albany, N. Y., to a \$600 New Chevrolet with $33\frac{1}{3}$ Percent Down Payment and 12-Month Contract, 1924-41	91
IX. Average Duration of Instalment Indebtedness to Five Types of Retail Establishments, 1928-40	93
X. Substandard Automobile and Diversified Paper Held by Reporting Sales Finance Companies, in Percent of Annual Volume, 1925-40	94
XI. Annual Instalment Sales in Percent of Annual Total Sales of Each of Five Types of Retail Establishments, 1925-40	137
XII. Indices of Annual Instalment and Cash Sales of New Passenger Automobiles, 1928-40	139
XIII. Indices of Monthly Automobile and Furniture Production (1935-39 average = 100) and of Monthly New Credits Extended by Automobile and Furniture Dealers (1935-38 average = 100), 1926-40	156

XIV. Estimated Series on Instalment Financing of New Passenger Automobiles, 1940-41, and Corresponding Series under the Assumed Operation of Regulation W	168
B-I. The "Straight Line" and "Sinking Fund" Amortization Functions	199
B-II. Ideal Relationship of New Credits, Total Outstanding Credit and Net Credit Change	204



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