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PHILIP A. KLEIN
THE PENNSYLVANIA STATE UNIVERSITY

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P. A. K.

FOREWORD

IN THE PLANNING stage of the Consumer Credit Study, some recurrent questions seemed to demand investigation. What happens to consumer debts among households hit by unemployment? Were those who became unemployed more heavily indebted than households in similar economic circumstances whose employment continued? Did the existence of indebtedness cause hardship among the unemployed? Finally, did consumer debt, through its effect upon unemployed households, accentuate business recessions and delay recovery, or did the availability of debt as a means of adjusting to recession offset its deflationary influences?

It was apparent that the relation between indebtedness and unemployment was complicated by other financial adjustments precipitated by changes in household income and expenditures. Hence, in order to analyze the behavior of consumer debt during periods of adversity, it was necessary to adopt a broad approach and study comparatively the expenditure patterns of households with varying amounts of income, debt, and liquid assets. Fortunately, an unusual body of data had become available through the efforts of the U.S. Department of Labor, which had made six regional studies of consumer expenditures of households between 1954 and 1958 in order to ascertain the adequacy of benefits under unemployment compensation systems. These surveys contained a wealth of information about the indebtedness of households experiencing unemployment.

Philip A. Klein's painstaking work on these data has resulted in findings of importance, not only to the objectives of the Consumer Credit Study, but to those interested in the economics of consumption and the impact of unemployment as well. Working closely with F. Thomas Juster, who is conducting a broader study of the effects of credit use upon consumer expenditures, Klein developed empirical evidence to support his major finding that both liquid-asset holdings and consumer debt permit financial adjustments which enable unemployed households to maintain consumption expenditures. He shows that in addition to unemployment benefits, liquid assets primarily and consumer indebtedness to a lesser extent work as compensatory economic stabilizers against deflationary influences among unemployed households.

Klein's insights into debt adjustment patterns among the unemployed permit some further elaboration of the widely held view that cyclical fluctuations in instalment credit are destabilizing. Gottfried Haberler, in his 1942 National Bureau study *Consumer Instalment Credit and Economic Fluctuations,* reached this conclusion and it received further modification and support from Donald M. Humphrey in the Conference on Regulation held in 1956 by the National Bureau (proceedings published in 1957 by the Board of Governors of the Federal Reserve System in its report *Consumer Instalment Credit*). The relevant point made by Klein is that debt adjustments among families hit by unemployment exert a stabilizing influence by moderating the decline in their consumption expenditures. To the extent that this limited stabilizing influence occurs in the general population during recession, it would tend to moderate the general effects of income changes and associated destabilizing changes in the relation between credit extensions and repayments upon consumption expenditures.

Despite the customary difficulties of working with questionnaires designed for a purpose other than the objective of this study, Klein has uncovered many interesting aspects of the relation between unemployment, debt, and expenditures. His work on the debt adjustments undertaken by the unemployed represents, I believe, the first attempt of its kind. His findings, though tentative, are provocative. As a result of his work we have begun to progress beyond everyday notions of what happens to people in debt when they become unemployed.

ROBERT P. SHAY, *Director*
Consumer Credit Study