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Summary Survey

THIS statistical analysis of the pattern of consumer debt, 1935-36, has been prepared from a sample of some 60,000 expenditure schedules for non-relief families, giving information on the net change in their instalment debt, cash loan debt, and charge account debt. On the basis of tabulations covering this sample, estimates have been developed (a) of the percentage of non-relief families in the several income groups whose instalment debt, cash loan debt or charge account debt increased or decreased during the period 1935-36, (b) of the dollar volume of both gross and net change in indebtedness, and (c) of the distribution of such debt change among income groups. Geographical breakdowns of country-wide estimates have been possible for each type of consumer debt, and for instalment debt alone, breakdowns by type of commodity financed, by broad occupational classes and by family size.

Generalization of findings is restricted by the limitations of the original sample. Data were available only for non-relief families, native white and Negro. Single individuals, families classified as foreign-born, and all families on relief were excluded. Finally, data were lacking for the very lowest income groups in some types of community and for the highest in others—shortcomings which necessitated the construction of special estimates for these groups. Thanks to the meticulous care with which the sampling procedure was worked out, the sample is nevertheless the most representative so far available in the field of consumer expenditures.

The pattern of consumer debt estimated from the sample data relates only to a single year in the expansion phase of one business cycle. Data are not at hand to permit a determination of the pattern of consumer debt for other years or for other phases of the business cycle, but if such materials were available they might yield a statistical picture different from that developed in this study.

The findings of the study are stated compactly in the following summary. A full analysis, illustrated by charts, is contained in the chapters dealing with each type of consumer debt and with the market for consumer credit as a whole. Detailed statistics are presented in appendix tables.

THE FREQUENCY OF CONSUMER DEBT

Our estimates show that approximately one-quarter of all non-relief families in the United States had a net change in debt for instalment purchases, one-eleventh for cash loans, and one-ninth for charge account purchases during the period 1935-36. The latter figure undoubtedly underestimates the extent of use of charge account credit; the first two are closer approximations of the frequency of the types of debt to which they refer.

Frequency of instalment debt rose from 12 percent for families with incomes under $500 to a peak of 32 percent for families in the $1750-2000 level, and then declined steadily. Frequency of cash loan debt reached its highest point at the $2500-3000 level, where it stood at 12 percent. Peak indebtedness for charge account purchases occurred in the lowest income level (under $500), with almost 18 percent of the families in this grouping indebted, and then dropped continuously to 7 percent for families with incomes of $5000 or more.

According to a rough estimate, over one-third of all non-relief families had a net change in consumer debt (all three types of indebtedness) during 1935-36. The frequency of debt rose from a minimum of about 28 percent in the income levels below $750 to a peak of almost 42 percent for families with incomes of $1750-2000, and then declined consistently as income advanced until it stood at less than 23 percent for families with incomes of $5000 or more.

THE DISTRIBUTION OF DEBTORS BY INCOME LEVEL

Twenty-six percent of the families with a net change in instalment debt, 32 percent of the cash loan debtors and 43 percent of the families indebted for charge account purchases had incomes under $1000. The $1000-2000 band included 48 percent, 42 percent and 38 percent of those indebted for instalment purchases, cash loans and charge account purchases respectively. About 27 percent of the instalment and cash loan debtors had incomes of $2000 or more, as compared with 19 percent of the families indebted for charge accounts.

Almost 62 percent of the families with a net change in consumer debt had annual incomes between $1000 and $3000, 30 percent were below the $1000 level and only 8 percent had incomes of $3000 or more.

THE DOLLAR VOLUME OF DEBT CHANGE AND ITS DISTRIBUTION

The period 1935-36 witnessed a net increase in the volume of instalment debt outstanding amounting to almost $408,000,000, of cash loan debt totaling about $285,000,000, and of charge account debt reaching approximately $112,000,000. About 19 percent of the net increase in instalment debt and 48 percent of the net increases in cash loan and charge account debt may be attributed to families with incomes below $1000. Families in the $1000-2000 income level were responsible for 48 percent, 38 percent and 28 percent of the net increase in instalment, cash loan and charge account debt respectively. Those with incomes of $2000 or more accounted for about 34 percent of the net increase in instalment debt, 23 percent of the increase in cash loan debt, and 14 percent of the increase in charge account debt. The non-farm market for retail instalment credit and the non-farm market for cash loan credit were found to be more similar than the all-inclusive markets just described.

The net increase in all three types of debt combined amounted to approximately $805,000,000; of this total, the rise in instalment outstandings accounted for 51 percent, in cash loan debt for 35 percent, and in charge account debt for 14 percent.

Sixty percent of the net increase in the dollar volume of consumer debt outstanding was attributable to families with incomes of $1000-3000 a year, 33 percent to families with incomes of less than $1000 and less than 8 percent to families with incomes of $3000 or more.

THE PATTERN OF INCREASE AND DECREASE IN CONSUMER DEBT

Among lower-income families there was a stronger tendency to increase obligations for each type of credit than among higher-income families; the movement toward growing indebtedness was most marked below the $1500 level for instalment debtors, below the $1250 level for cash borrowers, and below the $1000 level for charge account debtors.

For all three types of credit, both the average dollar amount of increase and decrease in indebtedness rose as income advanced, but both average increase and average decrease constituted a constantly diminishing proportion of income as it moved upward.

Although families in all income levels increased consumer debt to a greater extent than they decreased it, lower-income families exhibited the strongest tendency in this direction. It would appear, therefore, that consumer credit in the expansion year 1935-36 was applied primarily to the raising of living standards in anticipation of increasing income, and particularly by families whose need was greatest.

REGIONAL AND COMMUNITY VARIATIONS IN THE PATTERN OF CONSUMER DEBT

Instalment credit was most widely used in all but the very largest urban communities and least extensively in metropolitan areas and on farms. Frequency of cash loan debt was highest for farm families and lowest for those living in middle-sized cities. Charge account credit was less frequently used in metropolitan centers than in any other type of community.

Viewed regionally, instalment debt reached highest frequency in the Pacific region, whereas cash loan and charge account credit were used most extensively in the Mountain and Plain region. The lowest frequency of instalment debt was found in the North Central region, of cash loan debt in the South, and of charge account debt in the North Central region and in New England.

Consumer credit as a whole was used most widely by families in large and small cities and least extensively by families living in metropolises and on farms.

No pronounced variation in the cyclical response to consumer credit is to be observed from one type of community to another, except that farm families were less strongly inclined to increase obligations than families in other communities.

Consumer credit was used most extensively by families in the Mountain and Plain and Pacific regions and least in the North Central, but southern families above the $2000 level tended to have the highest frequency of debt.

THE PATTERN OF INSTALMENT DEBT BY TYPE OF COMMODITY

Estimates based on data from metropolises, large cities and middle-sized cities indicate that almost one-third of the instalment debt changes related to purchases of furniture, one-fifth to automobiles, one-third to electric refrigerators and other electric equipment, one-twelfth to radios, and less than one-tenth to the miscellaneous category which includes "soft" goods. These data suggest that instalment credit was not widely applied to the sale of soft goods in 1935-36. On the other hand, since such goods are often sold on very short contracts, they may not have been adequately taken into account by the method employed in the gathering of the sample data, and it is probable, therefore, that the "miscellaneous commodity" category underestimates the number of instalment sales of soft goods during the period studied.

Almost 60 percent of the net increase in the dollar volume of instalment debt is credited to automobile purchases and another 25 percent to electric refrigerators and "other electric equipment." About 10 percent of the net debt increase resulted from purchases of radios and miscellaneous commodities. Instalment purchases of furniture accounted for only 6 percent of the net increase in the dollar volume of debt.

The different income groups varied in their preferences for commodities purchased on the instalment plan. For the income levels below $1000, furniture was the commodity most frequently financed on instalment terms, with radios, "other electric equipment" and miscellaneous articles following in order of importance. Families with incomes between $1000 and $2000 contracted instalment debts for furniture, automobiles, electric refrigerators, and "other electric equipment" more frequently than for the remaining types of commodity. For families above the $2000 level automobiles were the most common source of instalment obligations.

Many families, of course, carried instalment contracts for more than one type of commodity. As income rose up to the $3000 level there was an increasing tendency for families to be indebted for more than one commodity; above that level the trend was reversed.

VARIATIONS IN INSTALMENT DEBT BY OCCUPATIONAL GROUP AND SIZE OF FAMILY

A comparison of wage-earning families with those in the "other non-farm" occupational group reveals that the former tended to use instalment credit more than the latter. Frequency of instalment debt was higher for wage-earning families than for other non-farm families in all income classes except the lowest. Frequency of instalment debt was far lower for farm families than for wage-earning or other non-farm families in every income level except that of $5000 and over.

Wage-earning families tended to increase their instalment debt to a greater extent than other non-farm families in the period 1935-36. In both occupational groups, however, more families increased their obligations than reduced them.

The frequency of instalment debt did not vary markedly for families of different sizes except that two-person families used such credit less commonly than did larger families.

CONSUMER CREDIT AS A FACTOR IN PURCHASING POWER

The net increase in instalment debt added .9 percent to the aggregate income or purchasing power of all non-relief families during the period 1935-36, and the net increases in cash loan and charge account debt added .6 percent and .3 percent respectively. For the families which actually used it, however, instalment credit increased income by almost 4 percent, cash loan credit by 7 percent and charge account credit by 4 percent.

For the non-relief population as a whole the gross addition to purchasing power resulting from the use of consumer credit during this period came to less than 3 percent of the total income received and after subtraction for repayments the net addition to income was less than 2 percent, or approximately $805,000,000. The entire class of families with incomes under $500, however, added a net 10 percent to their immediate purchasing power through the use of consumer credit and families with incomes of $500-2000 added from 2 to 5 percent. On the other hand, for families receiving more than $2000 consumer credit was relatively insignificant as a source of funds for additional spending.

Consumer credit caused the distribution of purchasing power (aggregate income plus net increase in debt) to differ from the distribution of income alone only to a negligible degree during the period 1935-36.

Considered in the aggregate, without regard to income grouping, the families actually using consumer credit (approximately one-third of all non-relief families) increased their spending capacity by more than 5 percent. At the same time, debtor families in the lowest income group (below $500) augmented their income by 38 percent; those in the $500-750 group by 17 percent and those with annual incomes of $750-1000 by nearly 10 percent.