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Volume Author/Editor: Blanche Bernstein

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Retail Instalment Debt

THE FREQUENCY OF INSTALMENT DEBT[1]

ON THE basis of sample data, it is estimated that in the year 1935-36 some 5,877,000 families, or almost one-quarter of all the non-relief families in the United States, had a net change in their indebtedness for instalment purchases.[2] The extent of use of instalment credit as indicated by these data varied considerably at different income levels. Among the very poorest families, those with annual incomes under $500, as large a proportion as 12 percent used this form of credit. With successively higher income levels the frequency of debt rose steadily, reaching a peak of 32 percent in the $1750-2000 band.[3] It then began to decline, by slight gradations for the two groupings between $2000 and $3000 and by much broader steps thereafter, until it stood at 15 percent for families with incomes of $5000 and over.

Of the families indebted for instalment purchases, over 90 percent had incomes of less than $3000 a year. About one-quarter of these debtors received less than $1000, almost half from $1000 to $2000 and another quarter $2000 or more.

[1] For complete data on this topic see Tables A-1, A-2, A-3 and A-4 in Appendix A. All tables pertinent to this chapter are to be found in Appendix A, and are referred to hereafter simply as A-4, A-5, etc. A similar procedure will be followed for Chapters 3, 4 and 5, for which tables will be cited as B-1, etc., C-1, etc., and D-1, etc., respectively.

[2] The material presented in this chapter is based largely upon *The Statistical Pattern of Instalment Debt*, by Ralph A. Young and Blanche Bernstein, National Bureau of Economic Research, Bulletin No. 76-77 (1939).

[3] Throughout this study, each income level is inclusive of the lower limit and exclusive of the upper limit; thus an income of exactly $1000 is included in the $1000-1250 income group.

Although those with incomes below $1000 accounted for about a fourth of all debtor families, they are credited with less than 20 percent of the total net increase in instalment debt which is estimated at $407,600,000 for the period under discussion. The share of this total net increase attributed to families with incomes from $1000 to $2000 was about equal to the representation of that group in the entire body of debtors—approximately 50 percent. The top grouping, on the other hand, had a disproportionately large share of the net increase—over 30 percent—as compared with its share of instalment debtors.

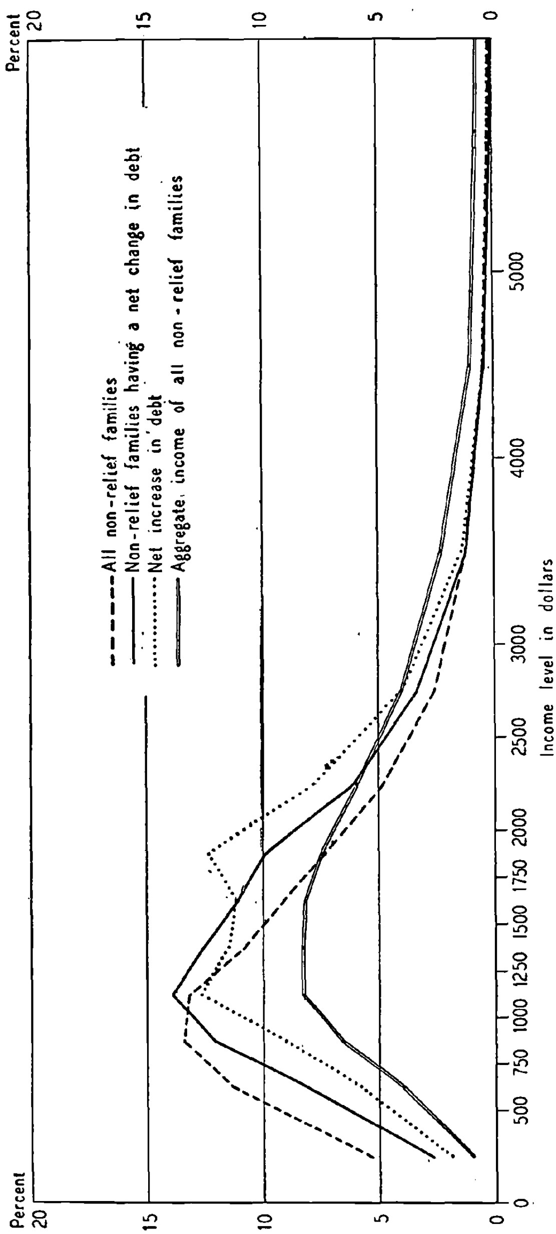
Within each income class below $1000, as the percentage distribution in Chart I shows, the proportion of all families indebted for instalment purchases was smaller than the proportion of all non-relief families. Moreover the segment of the net increase in instalment debt ascribed to these income groups was disproportionately slight as compared with their share of all non-relief families or of families owing instalment debts. Virtually every income class between $1000 and $3000, on the other hand, not only constituted a larger proportion of instalment debtors than of the non-relief population but also accounted for a greater share of the net increase in debt.[4]

When the distribution of the net increase in debt is compared with the distribution of the aggregate income of all non-relief families, it is found that families in each income level below $2500 had a larger share of the net increase in debt than of the total income. Almost 82 percent of the net increase in instalment debt was attributable to families with incomes of less than $2500 a year, although families in that group received only 57 percent of the aggregate income. On the other hand, families with $2500 or more received 43 percent of the total income but accounted for only 18 percent of the net increase in instalment debt.

4 Except the income class $1000-1250, which had a slightly smaller share of the net increase in debt than of all non-relief families.

Chart I

Percentage Distribution of All Non-Relief Families, of Non-Relief Families Having a Net Change in Instalment Debt, of the Net Increase in Such Debt, and of the Aggregate Income of All Non-Relief Families, 1935-36, by Income Level



It is of particular interest to determine at this point the degree to which instalment credit augmented the purchasing power of non-relief families. For all non-relief families considered together, this form of credit effected a net addition to the aggregate income of only .9 percent in the period 1935-36. But if we study the distribution of this addition according to income level, we find that for families receiving less than $500 the increase amounted to almost 2 percent of their income, that for families whose income ranged from $500 to $2500 it fluctuated between 1.2 and 1.5 percent, and that for families with more than $2500 it declined considerably. Thus for the level of $5000 and over the addition to purchasing power represented by the net increase in instalment debt came to as little as .1 percent of the total income.

If we consider only the families using instalment credit, we find that they increased their purchasing power by almost 4 percent. This addition to income amounted to as much as 15 percent for families with receipts of less than $500, to 8 percent for families with $500 to $750, and to almost 6 percent for those with incomes between $750 and $1250 per year.

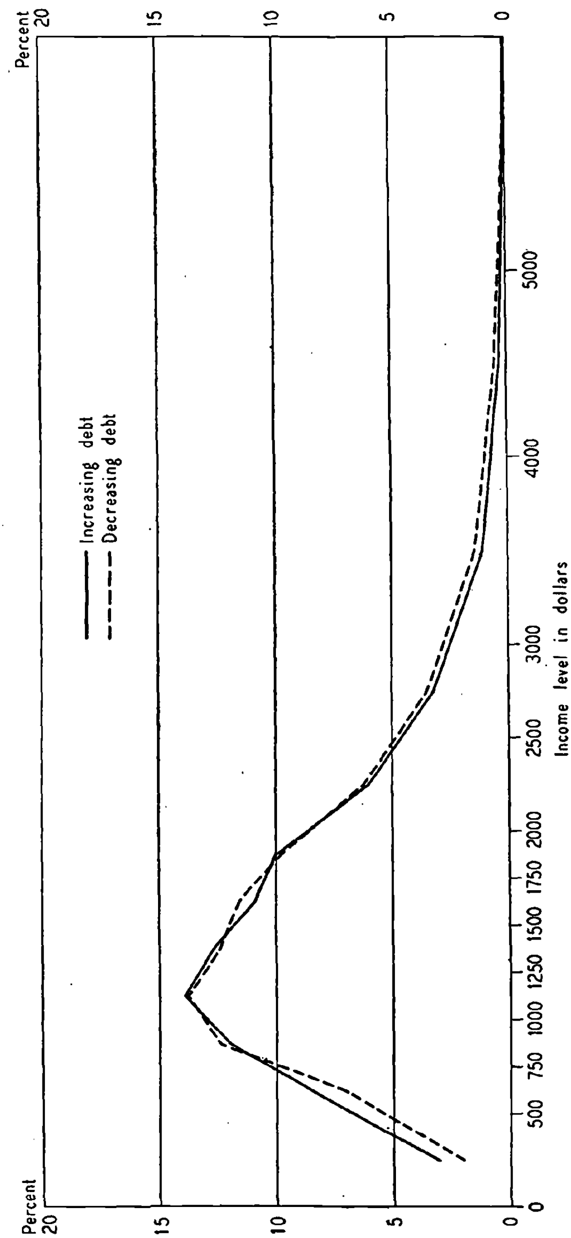
THE PATTERN OF INCREASE AND DECREASE IN INSTALMENT DEBT [5]

Far more families were increasing their debts for instalment purchases during the period under discussion than were reducing them. Of the 5,877,000 families with a net change in instalment debt, 70 percent owed more at the end of the period than they had at the beginning and only 30 percent had decreased the amount due. If these families are classified by income level, the ratio of the number increasing debt to the number with a net change in debt is found to have been highest (77 percent) for the poorest group, those receiving less than $500 per year, to have declined more or less steadily

[5] See Tables A-2, A-3, A-5, and A-6.

Chart II

Percentage Distribution of Non-Relief Families Increasing Instalment Debt and of Non-Relief Families Decreasing Such Debt, 1935-36, by Income Level



to 62 percent at the $4000-5000 level and then to have risen to 69 percent for families with incomes of $5000 or more.

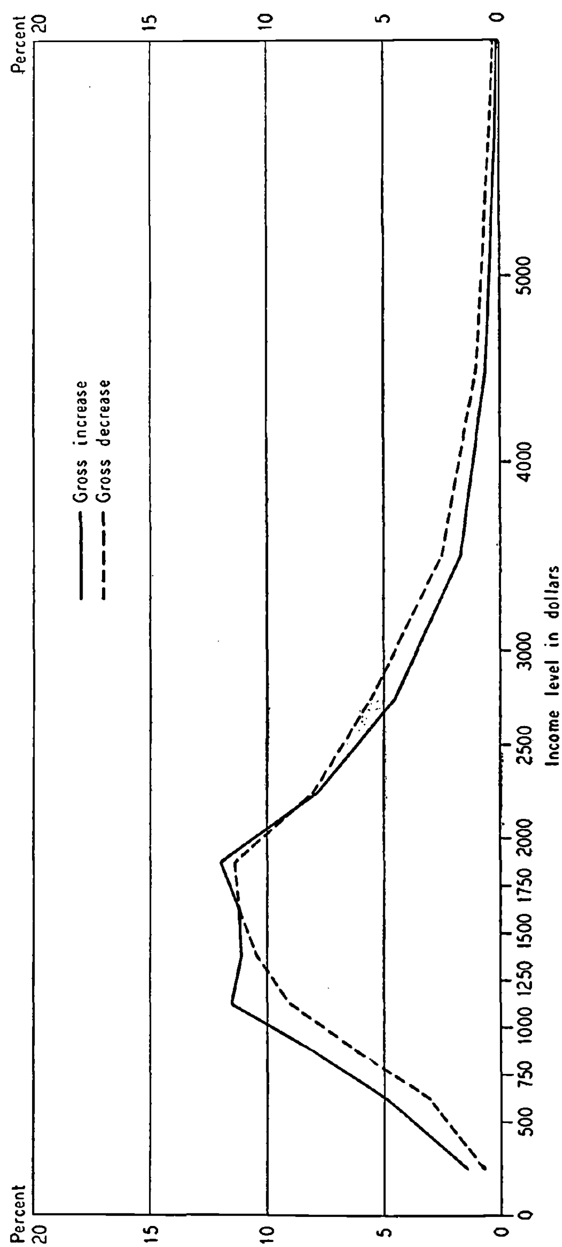
The tendency for lower-income families to increase instalment debt more than higher-income families during an expansion period is illustrated in Chart II. Most of the income classes below $1500 and all the classes below $750 had a larger proportion of families increasing debt than of families decreasing it. As Chart III shows, these income groups were responsible for a larger share of the gross increase in debt (38 percent) than of the gross decrease (30 percent). The income levels above $1500, on the other hand, embraced 50 percent of the families reducing instalment debt and 47 percent of those augmenting it. The two classes between $1500 and $2000 accounted for more of the gross increase than of the gross decrease, but for families with over $2000 the relationship was reversed, for almost 48 percent of the gross decrease and only 39 percent of the gross increase was attributable to these income classes.

Families whose annual incomes fell below $1500 supplied a smaller share of the gross increase in debt than of the families increasing debt, and a smaller share of the gross decrease than of the families decreasing debt. It may be inferred, therefore, that families in these low-income groups owed less money for instalment purchases than did the higher-income families. Families above the $1500 level held more than proportionate shares of both the gross increase and the gross decrease in instalment debt.

These differences reflect the fact that both the average addition to debt for families increasing the amount due and the average reduction effected by families decreasing their obligations rose with successive income levels. This finding bears out two rather general observations: first, that instalment credit purchases, like cash purchases, are usually conditioned by the size of a family's income; and second, that the use of instalment credit does not markedly alter the restric-

Chart III

Percentage Distribution of Gross Increase and Gross Decrease in Instalment Debt for Non-Relief Families, 1935-36, by Income Level



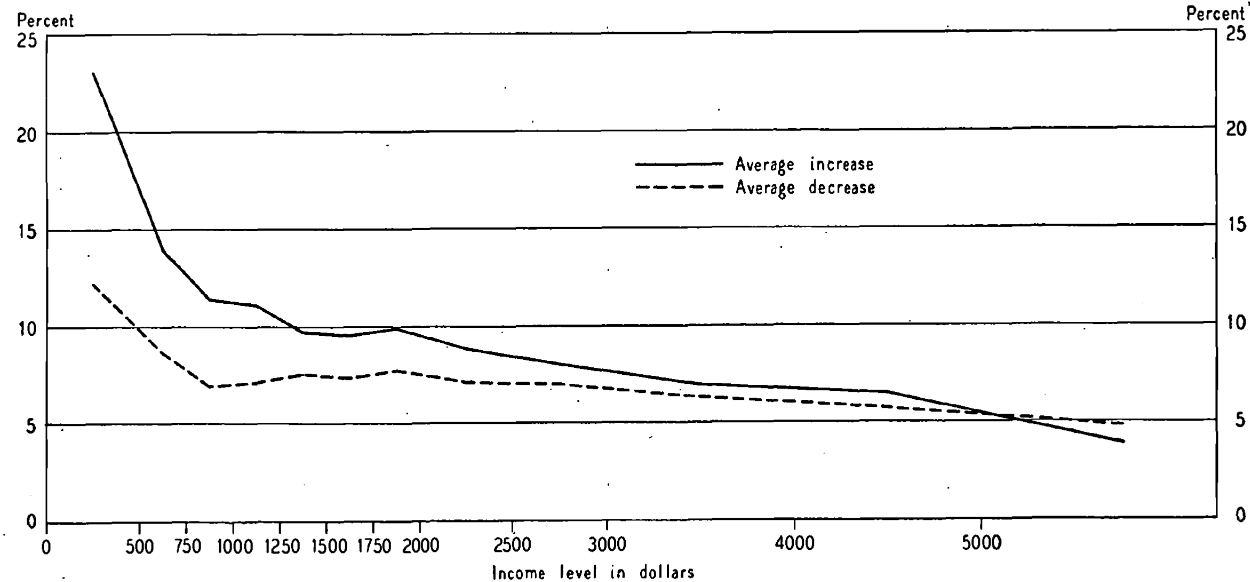
tions imposed by income upon the quality and quantity of goods bought. The lower-income groups appear, however, to have allocated a considerably larger percentage of their income to instalment purchases than the higher-income families. Thus, as Chart IV shows, for the group receiving less than $500 per year the average increase in instalment debt amounted to as much as 23 percent of the average annual income. This ratio dropped to 14 percent in the $500-750 level and continued to fall until it stood as low as 4 percent in the highest-income group. There was a decline also in the proportion of family income represented by the average decrease in instalment debt, from 12 percent in the lowest-income class to less than 9 percent in the $500-750 level and finally to less than 5 percent in the $5000-and-over class.

Average increase in instalment debt rose from $72 in the lowest band to $336 in the highest, and was larger than average decrease in every income class except the $5000-and-over group. The range was much broader for average decrease, which moved upward from $38 in the under-$500 level to $411 in the $5000-and-over group. The fact that average increase is larger than average decrease is to be explained in part by differences in the average duration[6] of instalment contracts. It indicates, moreover, that average instalment purchases per family were larger during 1935-36 than in the preceding year. Indeed there may well be a general tendency for instalment commitments to be larger on the average during periods of revival than during periods of recession. Finally, it is possible to observe from the data at hand certain variations among the several income classes within this broad movement toward an increase in instalment indebtedness. These differences are suggested by the downward trend of the ratio of average increase to average decrease in debt for the successive income levels. Thus although this ratio

[6] The longer the typical duration of the instalment contract for the commodity purchased, the greater the bias toward a larger average increase rather than a larger average decrease in debt.

Chart IV

Ratio of Average Increase and of Average Decrease in Instalment Debt for Non-Relief Families to Average Income of Such Families, 1935-36, by Income Level



stood just under 2 for the level below $500, it declined to 1.3 for the $1250-2000 level, to 1.1 for families receiving between $2500 and $5000, and to .8 for those with incomes of $5000 and over.[7] We may conclude, therefore, that lower-income families exhibited a stronger tendency than did higher-income families to increase the amount of their instalment indebtedness in 1935-36.

DIFFERENCES IN INSTALMENT INDEBTEDNESS IN TWO OCCUPATIONAL GROUPS[8]

When the non-relief families which derived the major portion of their incomes from endeavors unrelated to farming are divided into two broad occupational groupings—wage-earning and other non-farm occupations—it is found that the former tended to use instalment credit more than the latter. Thus 30 percent of the families in the wage-earning group had a net change in instalment debt in the period 1935-36 as compared with 26 percent of the families in other non-farm occupations. Though wage-earning families constituted less than 53 percent of the entire non-farm population, they made up 56 percent of the non-farm instalment debtors. These families were responsible, however, for a less than propor-

7 This relationship results in part from the fact that the commodities most frequently purchased on instalment terms vary as income increases, with the lower-income groups apparently tending to buy the commodities generally sold on longer terms. The tendency for the ratio of average increase to average decrease to decline as income rises is apparent also, however, when these data are presented separately for each commodity, though it is neither as consistent nor as pronounced as it is when all commodities are combined. (See below, pp. 34-40.)

8 See Tables A-7 through A-12. The occupational status of the family was determined by the major source of family earnings; thus if members of the family received earnings from two or more occupations, the family was classified according to the occupation from which the greater proportion of total family earnings was derived. The "other non-farm" category includes professional and business occupations, whether salaried or independent, and clerical occupations.

tionate segment (47 percent) of the net increase in instalment debt for all non-farm families. Families in other non-farming occupations, on the other hand, accounted for a less than proportionate share of the instalment debtors but for a disproportionately large share of the net increase in instalment outstandings. When we compare the distribution of non-farm income among occupational groups with the distribution of the net increase in debt we find, however, that although wage-earning families received one-third of the non-farm income [9] they contributed almost half of the net increase in instalment debt. Other non-farm families incurred a less than proportionate amount of the debt increase in comparison to their share of the total non-farm income.

As Chart V shows, frequency of instalment debt was higher for wage-earning families than for other non-farm families in all income classes except the lowest. In both occupational groups the percent of families indebted rose as income advanced, reaching a peak at the $1750-2000 level; at this point 39 percent of the wage-earning families and 32 percent of the other non-farm families were indebted for instalment purchases.[10]

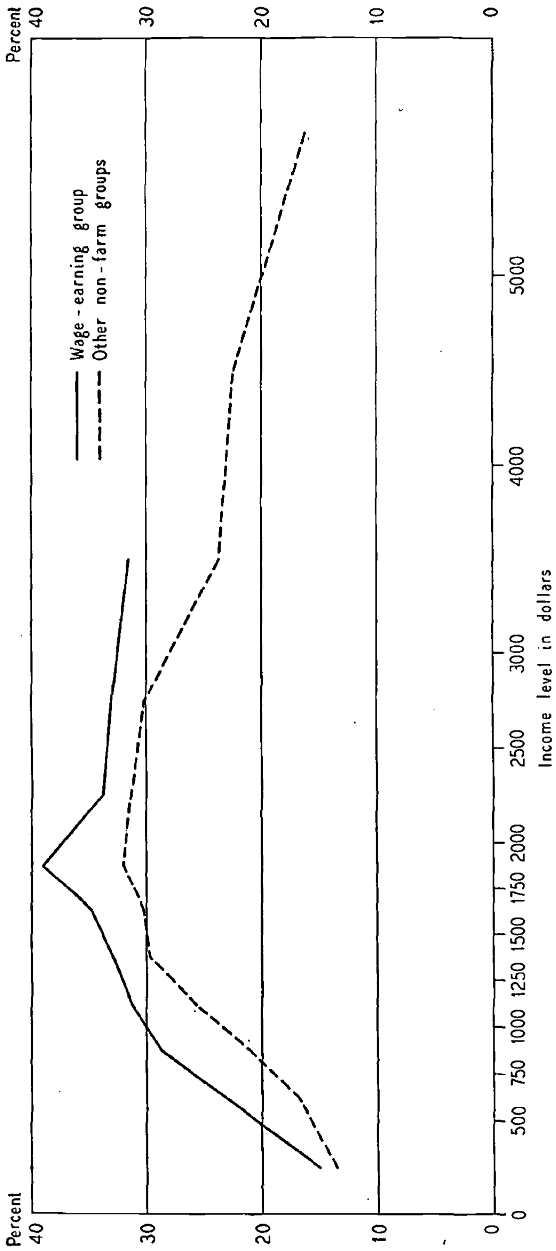
Farm families will be discussed at greater length in the section relating to differences in the use of instalment credit by types of community. Considering them here briefly as an occupational group, we note that the frequency of instalment debt was much the lowest for farm families as compared with wage-earning or other non-farm families in every income

[9] National Resources Committee, *Consumer Incomes in the United States* (1938) Table 9, p. 26.

[10] No data were available for wage-earning families with incomes of $3000 and over or for such families with incomes in excess of $2500 if they lived in small cities or villages. Estimates for the $2500-3000 level were made for these smaller types of community where required and in all cases for wage-earning families with incomes of $3000-4000 (except in metropolises for which adequate data were available), but it was thought quite unreliable to extend these estimates beyond the $4000 level. Less than 1 percent of the wage-earning families had incomes of $4000 or more.

Chart V

Percent of Non-Relief Families Having a Net Change in Instalment Debt, 1935-36, in Two Occupational Groups, by Income Level



level except that of $5000 and over.[11] Less than 12 percent of the farm families were indebted for instalment purchases whereas 30 percent of the wage-earner and 26 percent of the other non-farm families were so indebted.

The observation that wage-earning families tend to make more extensive use of instalment credit than other non-farm families is substantiated by further analyses of the data according to income levels and types of community. Such breakdowns indicate, for example, that wage-earning families had a higher frequency of instalment debt than other non-farm families with equivalent incomes in all types of community.[12]

Wage-earning families, furthermore, tended to increase their instalment debt to a greater extent than other non-farm families, although in both occupational groups more families were increasing their obligations than were reducing them. Of the indebted wage-earning families, two and one-half times as many had an increase as had a decrease in debt, whereas for other non-farm families indebted the ratio was 2.2. This tendency was especially marked in the income classes below $750; of the families in these low-income groups which had a net change in debt, almost 80 percent of the wage-earners but only 70 percent of other non-farm families increased their instalment obligations. Above the $750 level only a slightly larger percentage of wage-earning (as contrasted with other non-farm) families indebted for instalment purchases had an increase in debt.[13] Wage-earning families comprised 57 percent of the families increasing debt as com-

[11] See Table A-23.

[12] It is worth noting also that type-of-community differences in the use of instalment credit (see below, pp. 40-45) were not submerged by occupational differences. Frequency of debt was higher for wage-earning families with equivalent incomes living in large cities than for those in middle-sized cities, and lowest for wage-earning families in metropolises than for such families in any other type of community. Other non-farm families showed similar tendencies.

[13] Except in the $1250-1500 level where the percentage was higher for other non-farm families.

pared with 53 percent of the families decreasing it; for other non-farm families the percentages were 43 and 47 respectively.

If we consider the gross increase and the gross decrease in instalment debt for the year 1935-36, we find that wage-earning families had a slightly larger share of the former (45 percent) than of the latter (43 percent) but that they contributed smaller proportions of both the gross increase and the gross decrease than their numerical representation among families increasing and families decreasing debt would lead one to expect. In comparison with the wage-earners' share of non-farm income, which amounted to one-third, families in this category contributed more than proportionate shares of both the gross increase and the gross decrease in debt.

Within each of the two occupational groups, lower-income families increased their instalment indebtedness to a larger degree than higher-income families. There were, nevertheless, certain occupational differences with regard to the pattern of debt for the diverse income levels. Among wage-earners only the income levels below $750 included a greater proportion of families increasing than of families decreasing debt; above this level the relationship was of course reversed. In the case of other non-farm families in the same income classes, and indeed in those up to $1000, the proportions of families increasing instalment debt and of families decreasing it were fairly evenly balanced; but in the classes between $1000 and $2000 the proportion of families with rising debts was greater, and after the $2000 level the opposite tendency prevailed. In terms of the volume of debt, each class up to $2000 in the other non-farm group had a larger share of the gross increase than of the gross decrease in debt; above $2000 the income groups moved in the other direction.

For wage-earning families augmenting their instalment debt, the average increase in the amount due was $116, and for families of the same occupational status decreasing debt the average reduction came to $93. For other non-farm families average debt increase ($177) was likewise larger than average debt decrease ($139). Although frequency of debt was higher for the wage-earning group, the average rise in debt for the wage-earning families increasing their obligations was considerably smaller in each income class than the average increase in instalment debt for the other non-farm families which were also increasing debt. In each income class under $2500 the average debt decrease was smaller for wage-earning families than for other non-farm families; in most instances, however, the differences were slight. It may be inferred from these data that the instalment purchases of wage-earners totaled less per family during 1935-36 than those of other non-farm families; but since the average decrease in debt was about the same for both occupational groups it appears that in the preceding year, 1934-35, average instalment purchases of both wage-earners and other non-farm families were approximately equal.

VARIATIONS IN THE USE OF INSTALMENT CREDIT ACCORDING TO SIZE OF FAMILY[14]

The extent of use of instalment credit does not appear to have varied markedly for families of different sizes except in the case of two-person families.[15] Less than one out of six two-person families was indebted for instalment purchases as compared with more than one out of five among families with three to four, or five to six persons, and slightly less than one out of five among seven-person families. When families of different sizes are viewed according to their income classifi-

[14] Data showing a breakdown for size of family by income level were available only for the North Central region. See Table A-13.

[15] Two-person families married less than one year (who might be expected to do a considerable amount of instalment buying) were not considered in the Study of Consumer Purchases. According to information obtained from the Bureau of Home Economics such families accounted for about 2 percent of all families in the random sample. It may be calculated, therefore, that they constituted approximately 9 percent of all two-person families.

cation, however, certain variations in the instalment debt pattern do emerge. Thus below the $2500 level, three-to-four and five-to-six-person families interchanged first and second place in frequency of debt, while the largest and smallest interchanged third and fourth place. Above the $2500 income level the largest-sized families tended consistently to have the highest frequency of debt, and the other sizes followed in downward succession.

DIFFERENCES IN INSTALMENT INDEBTEDNESS ACCORDING TO TYPE OF COMMODITY PURCHASED[16]

Instalment credit, first used mainly for the purchase of furniture, began to advance rapidly in the early 1920's as a means of financing the purchase of automobiles. It has since been applied to the sale of many less durable commodities, and is today widely promoted even for "soft" or perishable goods. Estimates based on data from metropolises, large cities and middle-sized cities indicate that approximately 80 percent of the number of instalment debt changes in 1935-36 related to commodities other than automobiles. As may be observed from Chart VI, almost one-third of the instalment debt changes of families living in the types of community just enumerated may be ascribed to purchases of furniture, another third to electric refrigerators and "other electric equipment," one-fifth to automobiles, one-tenth to miscellaneous commodities and less than one-twelfth to radios.[17]

Since less than 10 percent of the number of debt changes were related to the miscellaneous category which includes soft goods, it may be inferred that in 1935-36 instalment credit had not yet made extensive inroads into the market for perishable commodities. Such an inference must be qualified, however, by the consideration that most instalment purchases

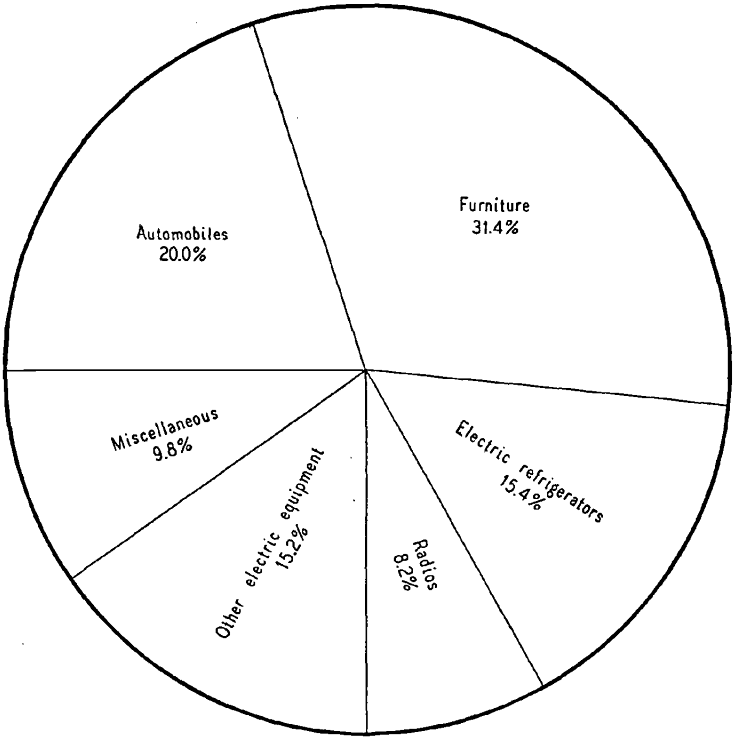
16 See Tables A-14 through A-22.

17 Radios are generally classed as electric equipment; in the present study, however, they are considered as a separate category.

Chart VI

Percentage Distribution of All Instalment Debt Changes for Non-Relief Families, 1935-36, by Commodity

(Number of debt changes)



of soft goods run on relatively short-term contracts which call for weekly payments. Inasmuch as families that incurred debts and paid them off within the year are not covered in our estimates, the data on the miscellaneous category probably understate the number of instalment transactions applied to soft goods during this period.

Almost 60 percent of the net increase in the dollar volume of instalment debt is credited to automobile purchases, as

Chart VII

Percentage Distribution of Net Increase in Instalment Debt for Non-Relief Families, 1935-36, by Commodity

(Dollar volume of debt change)

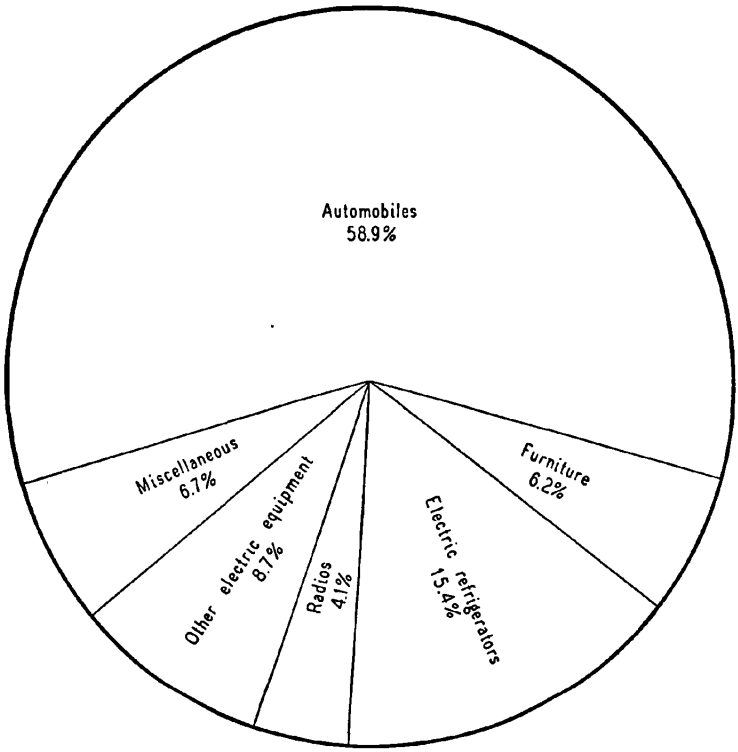


Chart VII indicates, and another 25 percent to electric refrigerators and "other electric equipment." About 10 percent of the net increase in debt resulted from purchases of radios and miscellaneous commodities. Though furniture loomed large in the number of debt changes, instalment purchases of furniture accounted for only 6 percent of the net increase in dollar volume of debt.

During the period covered by this study furniture and electric refrigerator contracts gave rise to smaller shares (42 percent) of the total number of instalment debt increases than of the decreases (60 percent). The other commodities were credited with substantially larger shares of the debt increases than of the debt decreases. Furniture alone accounted for a larger share (37 percent) of the gross decrease in the dollar volume of instalment debt than of the gross increase (18 percent). Automobile purchases, the greatest single source of instalment debt in terms of dollar volume, were responsible for over 50 percent of the gross increase and for 37 percent of the gross decrease in instalment debt; the remaining commodities showed a less marked tendency to contribute more to the increase than to the decrease.

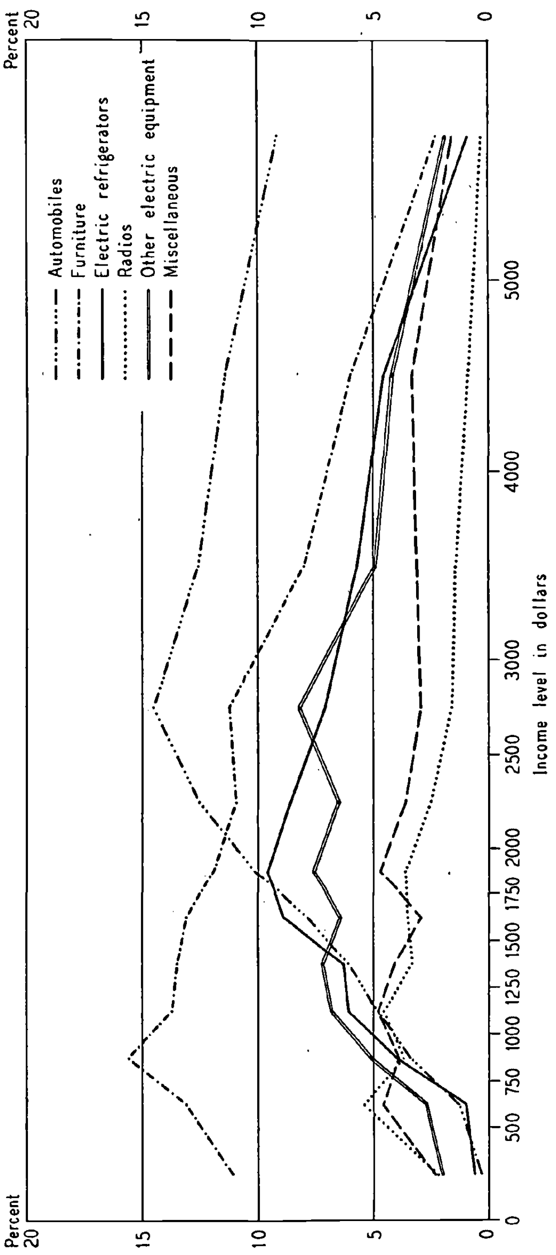
For all income levels combined, frequency of debt was highest for the instalment purchase of furniture, and was next to the highest for automobiles. The different income groups varied, however, in their preferences for certain commodities. An examination of Chart VIII reveals that in the income levels under $1000, for example, 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 had contracted instalment debts for furniture, automobiles, electric refrigerators and "other electric equipment" more widely 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, carry instalment contracts for more than one type of commodity. If the frequency of debt for all commodity groups [18] is compared with the frequency of debt for each commodity for 1935-36, it appears that as income rose up to $3000 there was an increasing tendency for

[18] These data, which apply only to metropolises, large cities and middle-sized cities, are not presented in the tables.

Chart VIII

Percent of Non-Relief Families Having a Net Change in Instalment Debt for Six Types of Commodity, 1935-36, by Income Level



families to be indebted for more than one commodity at a time; above that level the trend was reversed.

A comparison of the distribution of families indebted for each type of commodity shows marked differences in the buying proclivities of the diverse income groups. While 25 to 30 percent of the families using instalment credit for the purchase of furniture, radios and miscellaneous commodities had incomes below $1000, this income range covered only 6, 9, and 15 percent of the families indebted for automobiles, electric refrigerators and "other electric equipment" respectively. These families also were responsible for about 25 percent of the net increase in debt for furniture and radios, for over 15 percent of the net increase in debt for "other electric equipment" and miscellaneous commodities, for 12 percent of the net increase in debt for electric refrigerators, but for less than 3 percent of the net increase in debt for automobiles. Corresponding variations noted for other income groups would seem to indicate a fairly consistent relationship between commodity price, purchaser's income and the use of instalment credit to finance the purchase.

More families in each income group were increasing than were decreasing debt for every type of commodity financed on instalment terms. The ratio of families increasing debt to families decreasing debt was smaller, however, for families making payments for furniture and electric refrigerators than for those indebted for other commodities, perhaps because the two articles just mentioned are commonly sold on longer terms.

Increases in instalment obligations were relatively more numerous among families with incomes under $2000 than among higher-income families for every type of commodity. This same tendency is apparent also in the distribution of families increasing and decreasing instalment obligations. For instance, almost 50 percent of the families increasing automobile debt but less than 40 percent of those decreasing such debt had incomes below $2000.

It was generally true, furthermore, that for all commodities except radios the lower-income families were responsible for a larger proportion of the gross increase in dollar volume of debt than of the gross decrease in debt. Conversely, families with incomes above $2000 had a comparatively larger share of the gross decrease than of the gross increase in instalment debt. For all commodities except automobiles approximately half of both the gross increase and the gross decrease in debt was ascribed to families whose incomes ranged from $1000 to $2000.

For all commodities except furniture, the average debt increase was generally higher than the average debt decrease. This variation may be due in part to differences in the average duration of instalment contracts and in the length of time they had been outstanding as between families increasing and those decreasing debt. It lends some support also to the conclusion that with the exception of furniture, unit instalment purchases were on the whole larger in 1935-36 than they had been in the preceding year, and that unit furniture purchases, on the other hand, were smaller in 1935-36 than in 1934-35.

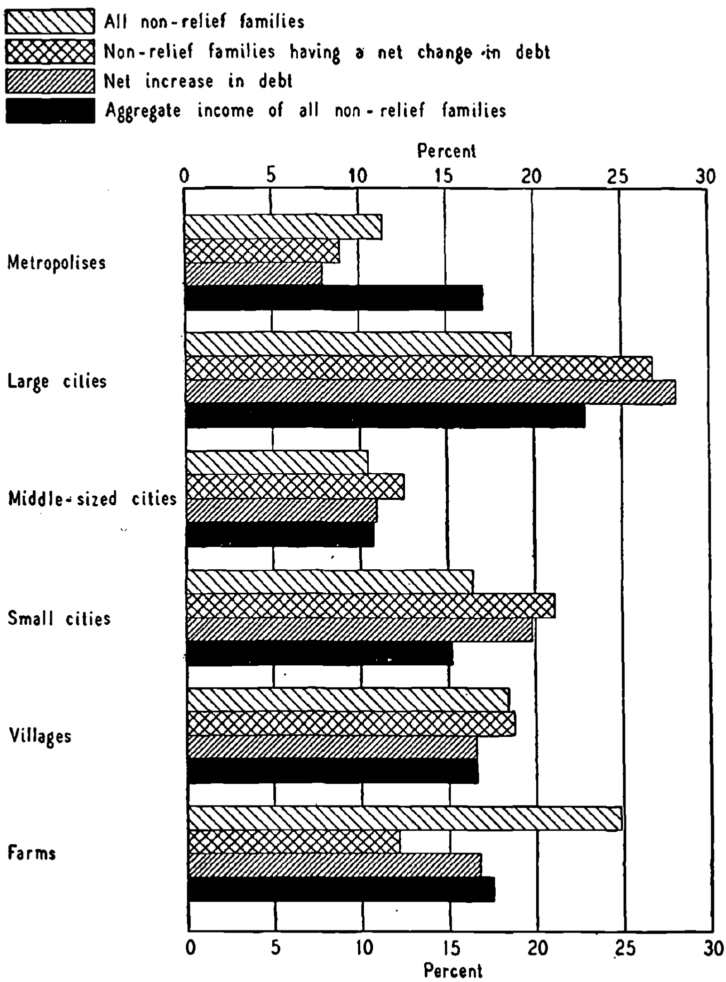
DIFFERENCES IN INSTALMENT INDEBTEDNESS ACCORDING TO TYPE OF COMMUNITY[19]

Instalment credit was used most extensively by families living in urban communities (with the exception of metropolises) and least by farm families. One out of three families in large cities, almost one out of three in small cities, more than one out of four in middle-sized cities and less than one out of five in metropolises had a net change in instalment debt in 1935-36. One out of four village families was indebted for instalment purchases, as compared with only one out of nine

[19] See Tables A-23 through A-30.

Chart IX

Percentage Distribution of All Non-Relief Families, of Non-Relief Families Having a Net Change in Instalment Debt, of the Net Increase in Such Debt, and of the Aggregate Income of All Non-Relief Families, 1935-36, by Type of Community



farm families. If families living in all non-farm communities are considered together, it appears that more than one out of four had a net change in instalment debt.

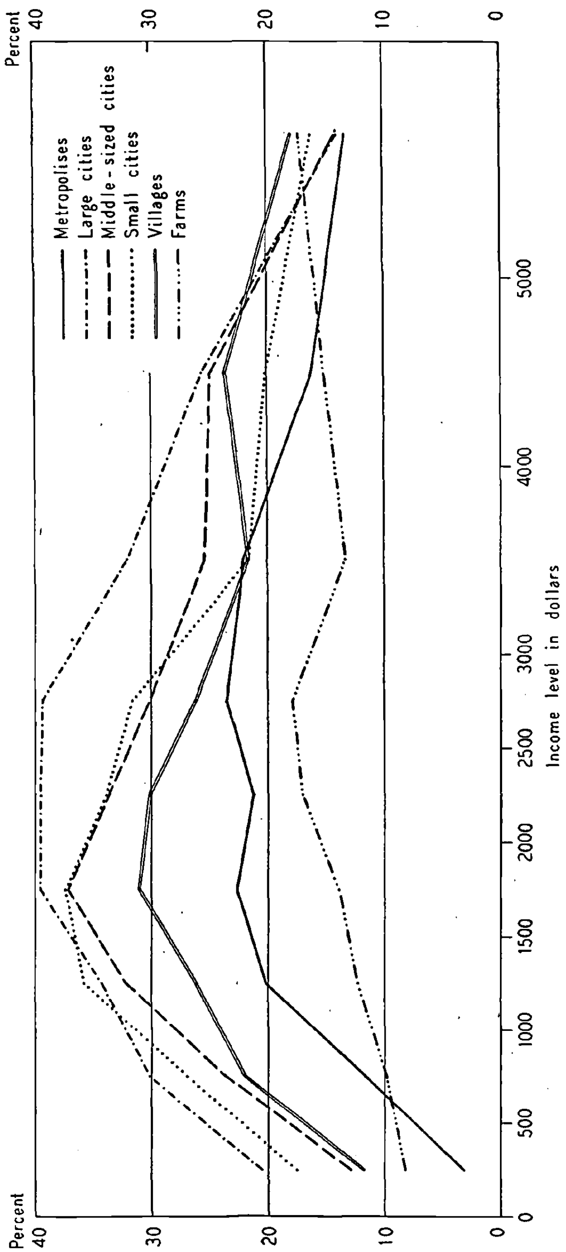
The distribution of instalment debtors and of the net increase in instalment debt by type of community is illustrated in Chart IX. All urban communities except metropolitan centers had a larger share of families indebted for instalment purchases (60 percent) than of all non-relief families (46 percent). These communities accounted for almost 60 percent of the net increase in instalment debt, though less than 50 percent of the total non-relief income was received by families residing within them. Village families, with an almost proportionate representation among instalment debtors, had a share of the net increase in debt which conformed exactly to their part of the total income. Metropolitan and farm communities, especially the latter, had a smaller share of both the number of instalment debtors and of the net increase in debt than they had of all non-relief families. Farm families, comprising 25 percent of all non-relief families, supplied only 12 percent of the instalment debtors but nearly 17 percent of the net increase in debt. Nevertheless, the share of the net increase in debt ascribed to farm families was only slightly smaller than their portion of the aggregate income; in this respect they differed markedly from metropolitan families, whose contribution to the net increase in debt was much smaller than their share of the total income.

Viewed according to income level, as in Chart X, families living in large cities appear to have made the widest use of instalment credit in all income classes up to $5000. Families in small cities generally ranked second in frequency of debt,[20] and those in middle-sized cities third. Metropolitan families stood fifth in this ranking for most income categories; their less extensive use of instalment credit may be attributable at least in part to the fact that ownership of automobiles is not

[20] Up to the $3000 level. Above this level middle-sized cities took second place.

Chart X

Percent of Non-Relief Families Having a Net Change in Instalment Debt in Six Types of Community, 1935-36, by Income Level



so widespread in metropolitan centers as in smaller communities.[21] Instalment debt was least prevalent among farm families (except in the very lowest and very highest income levels); the irregular flow of agricultural income undoubtedly militates against a credit plan which requires regular monthly payments over a comparatively long period.

In all six types of community more families were augmenting than were reducing instalment indebtedness, and no single type of community was outstanding in this respect. Each type of community, furthermore, included about the same proportion of families increasing as of families decreasing indebtedness. Nor does the distribution of gross increase and gross decrease in the dollar volume of instalment debt indicate any marked community differences in credit behavior in a period of economic expansion: each type of community was found to have contributed similar shares to both the gross increase and the gross decrease in debt.

If, however, we compare the gross increase in instalment debt to the number of families increasing such debt, and the gross decrease to the number of families moving in the opposite direction, we find that farm families had a disproportionately large share of both the gross increase and the gross decrease. These families had a greater average increase in the amount of their debt (in all but one income class) than families in other types of community, and an extremely high average decrease as well.[22] The average increase for farm families was $207 as compared with $139 for all non-farm families and the average decreases were $168 and $115 respectively. Larger unit indebtedness in farm communities may very well reflect the fact that farm families use instalment credit more than other families do for the purchase of automobiles and high-priced farm equipment.

21 In this connection see U. S. Bureau of Labor Statistics, *How Urban Families Spend Their Incomes* (July 1938) Table 9C.

22 No other persistent type-of-community difference in average increase or average decrease in debt is apparent.

With regard to community differences in the types of commodity purchased, data relating exclusively to the North Central region indicate that in urban communities furniture purchases were the most frequent source of instalment debt, while in villages and farms chief emphasis was placed upon automobiles. Automobiles accounted for next to the highest frequency of debt in urban communities. Farm families had a fairly proportionate share of automobile instalment debtors and metropolitan families a slightly more than proportionate share of families indebted for furniture and miscellaneous commodities. For all commodities except automobiles and those in the miscellaneous category, over 50 percent of the families with instalment debts were residents of large or small cities, although only one-third of the non-relief families lived in these communities. In contrast, metropolitan and farm families generally constituted a smaller proportion of families indebted for the instalment purchase of any commodity than they did of all non-relief families.

REGIONAL VARIATIONS IN THE PATTERN OF INSTALMENT DEBT[23]

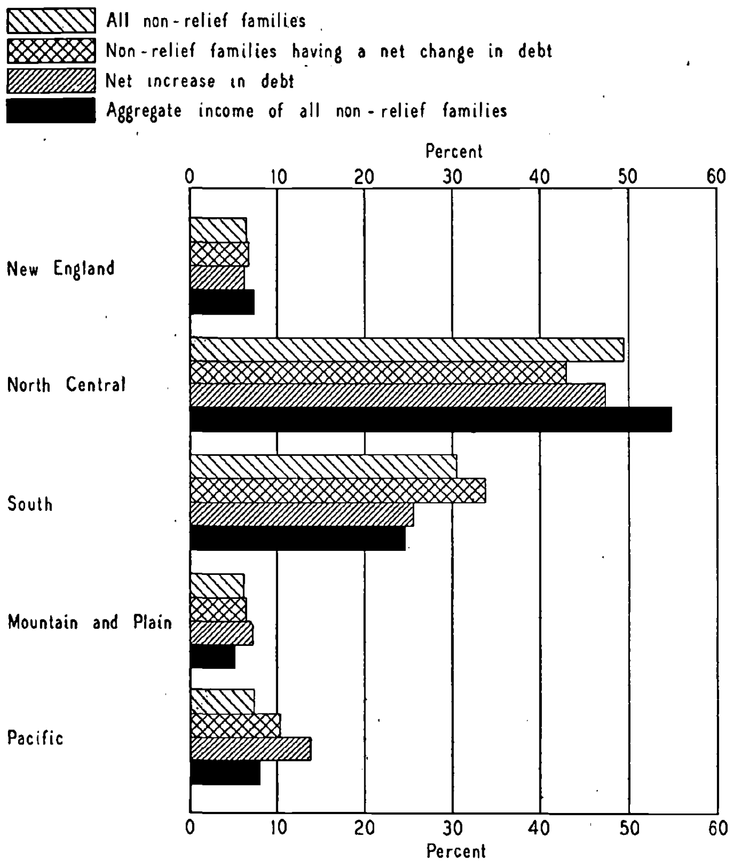
Instalment credit was used most extensively in the Pacific region, where one out of three families had a net change in debt for deferred-payment purchases as compared with one out of four in New England, in the South and in the Mountain and Plain region, and one out of five in the North Central.[24] The low frequency of debt in the last-named area reflects in turn the relatively slight use of instalment credit in the metropolitan centers of this region.

In every region except the North Central the proportion of all instalment debtors was larger than the proportion of all non-relief families, as is shown in Chart XI. The North

23 Complete data on this topic are to be found in Tables A-31 through A-44.
24 See Table A-31.

Chart XI

Percentage Distribution of All Non-Relief Families, of Non-Relief Families Having a Net Change in Instalment Debt, of the Net Increase in Such Debt, and of the Aggregate Income of All Non-Relief Families, 1935-36, by Region



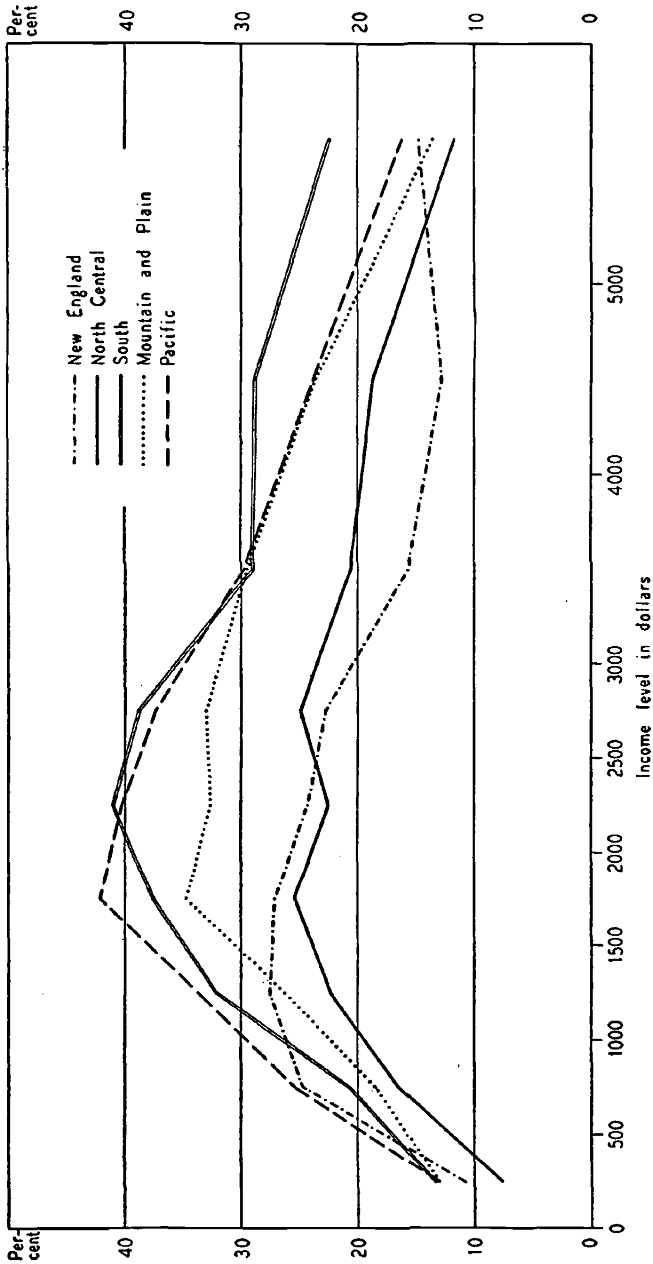
Central, on the other hand, had almost 50 percent of all non-relief families but only 43 percent of the families indebted for instalment purchases; these families contributed nearly 48 percent of the net increase in debt, but this apparently large fraction was less than the share of total income (55 percent) ascribed to the North Central region. In comparison to the number of families, the South had a disproportionately small share and the Mountain and Plain and Pacific regions disproportionately large shares of the net increase in instalment debt, but all three regions had larger shares of the net increase in debt than they had of the total income received by non-relief families. The Pacific region, representing about 7 percent of all non-relief families and 8 percent of the aggregate income, had over 10 percent of the instalment debtors and contributed 14 percent of the net increase in debt.

The high frequency of instalment debt in the Pacific region is, as Chart XII indicates, attributable exclusively to families with incomes below $2000. Above that level families in the South generally surpassed families in the Pacific in the extent of use of this type of credit. For most income levels, families in the Mountain and Plain region ranked third in frequency of debt. The North Central region had the lowest frequency up to the $2500 level; above that point New England tended to have a lower frequency. The use of instalment credit became increasingly widespread in all regions as income advanced up to the $1500-2000 band and then declined consistently, except in the South, which did not reach peak indebtedness until the $2000-2500 level, and in New England, where the highest frequency occurred at the $1000-1500 level.

When the analysis is extended to permit a comparison of frequency of debt in each type of community in the five regions, the differences already noted for all types of community in each region tend to remain unchanged. Families living in southern communities of all types had on the whole the highest or next to the highest frequency of debt as compared with families having equivalent incomes but living in other regions. Families in every type of community except farms in the Pacific and in the Mountain and Plain regions generally had first, second or third highest frequency of debt.

Chart XII

Percent of Non-Relief Families Having a Net Change in Instalment Debt, 1935-36, in Five Regions, by Income Level



For all types of community except farms, the North Central and New England regions tended to interchange fourth and fifth place in debt frequency, but farm families in these two regions had the lowest frequency of debt in only one income level.

More families were increasing than were decreasing instalment obligations in every region, but those in the North Central and Pacific regions exhibited a somewhat stronger tendency in this direction than did families in other sections of the country. Together, these two regions accounted for over 54 percent of the families increasing instalment obligations, but for less than 51 percent of the families decreasing them, and for 58 percent of the gross increase in debt and 52 percent of the gross decrease. There was a less marked inclination to increase instalment indebtedness in the South, for this section of the country embraced 33 percent of the families increasing debt as compared with 36 percent of the families decreasing it; these families contributed 29 percent of the gross increase and 35 percent of the gross decrease. New England and the Mountain and Plain region had about the same shares of families increasing debt and of those decreasing it as they did of the gross increase and the gross decrease in debt.

For individual commodities, data based on metropolises, large cities and middle-sized cities in each region indicate that the frequency of instalment debt showed considerable regional variation. For furniture, electric refrigerators and radios it was highest in the South, for automobiles and miscellaneous goods it was highest in the Mountain and Plain region, while for other electric equipment it was highest in the Pacific.

Although the North Central region includes more than 62 percent of all urban non-relief families, only 43 to 50 percent of the families indebted for the five specific commodity groups and 61 percent of those indebted for miscellaneous commodities dwelt within its boundaries. These families were responsible for 55 percent of the net increase in debt for automobiles, refrigerators and radios, but for only 25 percent of the net increase in debt for furniture. The South and Pacific regions had a more than proportionate share of the families indebted, as well as a more than proportionate share of the net increase in debt for every type of commodity except those in the miscellaneous group.[25]

An analysis of increases and decreases in instalment debt for each commodity during the year 1935-36 suggests that there were substantial regional variations in the behavior of consumers with regard to their obligations. During this period families in the South, more than in any other region, tended to cut down debt for all commodities except furniture, whereas families in the North Central region moved toward an increase in instalment debt for all commodities except furniture.

The regional differences which we have just described reflect in some degree certain variations in the cultural and social characteristics of the several sections of the country. Since deferred payment for commodities is primarily an urban development,[26] however, other factors, notably the type of city which predominates in a given region, and the distribution of urban family income within that region, must be considered also in any attempt to interpret the regional pattern of instalment indebtedness.

25 The Pacific region, however, had a less than proportionate share of the net increase in instalment debt for furniture.

26 Except for metropolitan centers, which generally had a low frequency of debt.