Volume Title: The Pattern of Consumer Debt, 1935-36: A Statistical Analysis

Volume Author/Editor: Blanche Bernstein

Volume Publisher: NBER

Volume ISBN: 0-870-14465-0

Volume URL: http://www.nber.org/books/bern40-1

Publication Date: 1940

Chapter Title: Charge Account Debt

Chapter Author: Blanche Bernstein

Chapter URL: http://www.nber.org/chapters/c6471

Chapter pages in book: (p. 74 - 93)

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## Charge Account Debt

IN ORDER to round out the analysis of the market for consumer credit, we are including a description of the pattern of charge account debt among non-relief families for the year 1935-36. This discussion is subject to two important qualifications. In the first place charge account credit often serves as a personal convenience to shoppers, and when so used is typically of short duration. In the second place, since the data are limited to net changes in debt over an entire 12-month period, families that settled their charge accounts each week or month were not included in the estimates given here, with the exception of those altering the amount of their indebtedness between the first week or month of the year covered and the last.

We may point out, on the other hand, that a charge account used not merely as a convenience but to tide a customer over an extended period of economic need runs for a comparatively long term. According to one authority, "where once a charge account was carried as a convenience by persons who were accustomed to paying for their accumulated purchases in a lump sum at the end of the month, undoubtedly most of them are now carried by the wage-earner as a necessity, many debtors paying 'on account' each pay day instead of taking care of their purchases in full each month, the original intent of the plan." [1] It is likely, further-

[1] Arthur H. Hert, "Charge Accounts of Retail Merchants," *Annals of the American Academy of Political Science* (March 1938) p. 111. Mr. Hert goes on to say that according to credit executives "65 percent of charge customers

more, that such protracted obligations are most adequately covered by our data on changes in charge account indebtedness for 1935-36. Before we proceed to set forth these data we must caution the reader to keep constantly in mind their special limitations, and to be particularly circumspect in his interpretation of such expressions as "families indebted," "frequency of debt" or "extent of use of charge account credit," which are employed here as well as in the two preceding chapters for purposes of flexibility and brevity in description.[2] Because of the large turnover in charge account debt, these terms are less appropriate here than in other chapters; we use them arbitrarily and only for convenience.

## THE FREQUENCY OF CHARGE ACCOUNT DEBT[3]

From our sample data we have estimated that over 2,700,000 families, or more than 11 percent of all the non-relief families in the United States, had a net change in charge account debt during 1935-36. The frequency of such debt change varied according to income level; it was greatest in the lowest-income group and declined gradually as income rose. More than one out of six families with annual incomes under $500, and almost every seventh family in the $500-750 class were indebted for charge account purchases in this period. Of the families with incomes of $1000 to $2000, approximately one out of ten was indebted; of those with incomes between $2000 and $5000, the proportion ranged from less than one out of eleven to one out of fourteen; and of families with incomes

use monthly accounts because they do not have available sufficient cash to make and pay for the purchases which they have charged . . . The other 35 percent probably does not have the problem of actually paying for purchases but used the accounts primarily as a convenience."

2 See explanation of the use of terms, pp. 13-17.

3 The reader's attention is directed to Tables C-1, C-2, C-3 and C-4 for detailed data on this topic.

of $5000 or more, only one in fifteen was in debt for charge purchases.

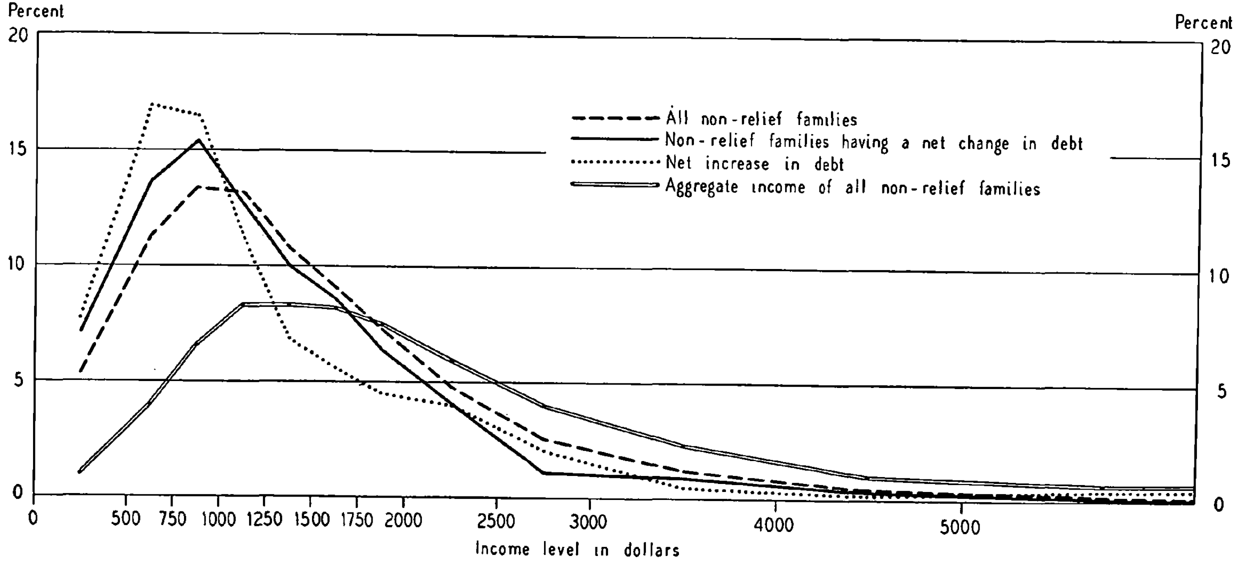
Of the families indebted for charge account purchases in 1935-36, almost 90 percent had incomes of less than $2500 a year and 65 percent fell below the $1500 level. These two groups accounted for 85 percent and 67 percent respectively of the total net increase of $112,000,000 in charge account outstandings attributed to non-relief families.

A comparison of the distribution of families indebted for charge accounts and the distribution of all non-relief families, presented in Chart XXI, shows that each income class below $1000 encompassed a larger proportion of families indebted for charge account purchases than of all non-relief families, and that in each income group above $1000 the opposite relationship obtained.

Each income level below $1250 had a larger share of the net increase in debt than of the total income for non-relief families. Over 43 percent of the families indebted had incomes below $1000 although only 35 percent of all the non-relief families in the country were in this income class. These indebted families with incomes under $1000 incurred almost 50 percent of the net increase in charge account debt, an amount more than proportionate to the number of families indebted and to the corresponding segment of all non-relief families as well. Furthermore, as Chart XXI shows also, families with incomes of less than $1000, though responsible for almost half the net increase in debt, received less than 13 percent of the total income of non-relief families. Less than 38 percent of the debtor families had incomes between $1000 and $2000, as compared with 40 percent of all non-relief families, and their share of the net increase in charge account debt was disproportionately low (28 percent) as compared with their share of aggregate income (32 percent). The income levels between $2000 and $3000 represented about the same fraction of net debt increase as of families indebted

Chart XXI

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



(12 percent), but received almost 20 percent of the total income. The emphasis shifts, however, for families with incomes above $3000; although this group accounted for almost 10 percent of the non-relief population, it furnished only 6.5 percent of the families indebted; these in turn were responsible for 11 percent of the net increase in debt and were the recipients of over 35 percent of the total income of non-relief families.

It is not surprising to find the use of charge accounts so heavily concentrated among low-income families since this particular type of credit is applied to a considerable extent to the purchase of goods of low unit price. Although no breakdown of the charge account data by type of commodity is available, the distribution of open account sales (in terms of volume of credit) by type of store as shown in the U. S. Census of Business for 1935 [4] lends support to this observation. According to the census figures, over 25 percent of the dollar volume of charge account sales was contributed by food stores and another 5 percent by general stores which sold food also; general merchandise and apparel stores were responsible for 20 percent of the charge account sales volume, lumber, building and hardware supply stores for 14 percent and miscellaneous retail stores for another 14 percent. Less than 9 percent of the dollar volume of open account sales related to the automotive group.[5]

The net addition to income resulting from the use of charge account credit was almost insignificant; it amounted to less than .3 percent of the aggregate income for non-relief families during 1935-36. Here too, however, as in the case of instalment and cash loan credit, considerable variation in the proportion of income represented by the net increase in

[4] U. S. Census of Business, 1935, *Retail Distribution,* vol. 6.

[5] Including automobiles as well as parts. This figure may be compared with the finding brought out in the analysis of instalment debt (Chapter 2) that almost 60 percent of the net increase in instalment debt in 1935-36 was ascribed to automobile purchases.

debt may be noted for the different income levels. The net addition to income amounted to over 2 percent for families in the lowest income level (under $500) and to over 1 percent for families receiving $500 to $750. For those above the $1250 level the supplement to purchasing power arising from the use of charge account credit appears to have been quite negligible. For families actually using this form of credit the resultant increase in purchasing power was more significant, since it added over 2 percent to their incomes. Analyzed by income groups, the ratio of net increase to income declined from almost 12 percent for those under $500 and 8 percent for the $500-750 level to approximately 1 percent for families with incomes above $3000.

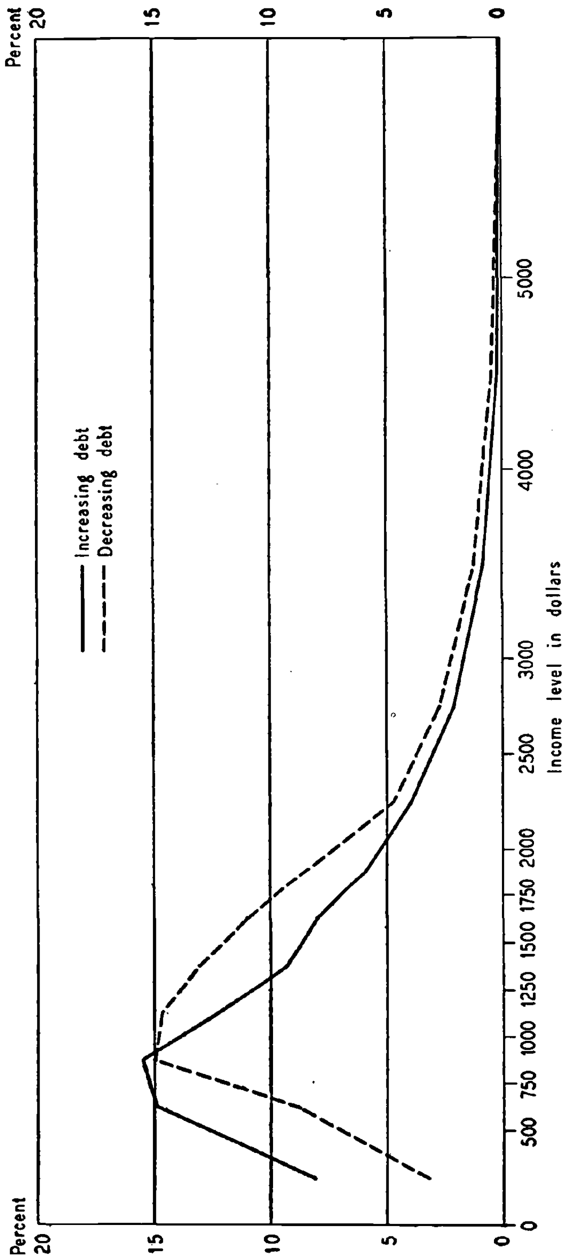
## THE PATTERN OF INCREASE AND DECREASE IN CHARGE ACCOUNT DEBT[6]

The period of cyclical upswing with which we are concerned witnessed a considerable expansion in charge account debt as in other fields of consumer credit: more than 80 percent of all families with a net change in charge account outstandings increased the amount due and less than 20 percent decreased it. The ratio of the number of families increasing to the number decreasing debts varied with income level, with lower-income families exhibiting a more pronounced tendency to augment their accounts than families with greater resources. Among families with incomes under $500 over 93 percent of those indebted for charge account purchases increased the amount owed. The proportion declined fairly consistently with rises in income until in each of the income groups between $1000 and $4000 it stood between approximately 75 percent and 79 percent. The ratio of families increasing charge account debt to those with a net change in such debt fell to less than 71 percent for the income group $4000 to

6 See Tables C-2, C-3, C-5, and C-6 for complete data on this topic.

Chart XXII

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



$5000 but rose again to 82 percent for the income group of $5000 or over.

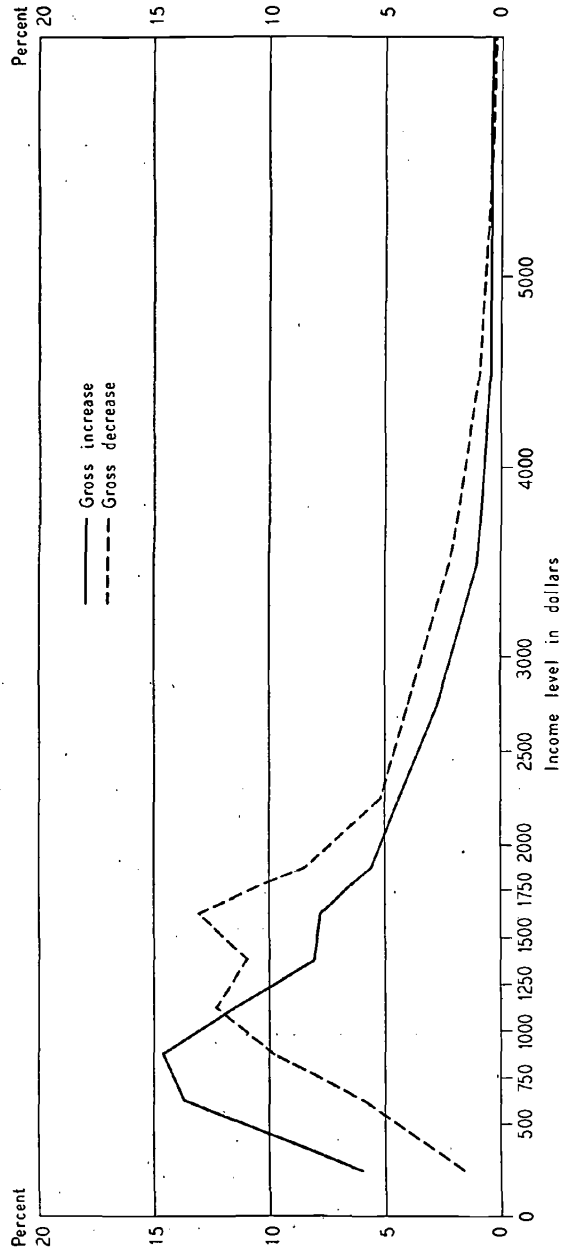
The tendency for lower-income families to increase charge account debt more than higher-income families is further illustrated in Chart XXII which shows that the income bands under $1000 included a larger proportion of families increasing than of families decreasing debt. Over 56 percent of the families increasing debt were in this income grouping, as compared with only 30 percent of the families whose outstandings were reduced during 1935-36. It is apparent from Chart XXIII, moreover, that families with incomes under $1000 accounted for a much larger proportion of the gross increase than of the gross decrease in debt—over 40 percent of the former as compared with less than 19 percent of the latter. Both the gross increase and the gross decrease ascribed to the low-income families were, however, less than proportionate to the number of these families.

Each of the income levels above $1000 (with the exception of the $5000-and-over grouping) included a more than proportionate share of the families decreasing charge account debt. Families in these income classes were responsible, furthermore, for more of the gross decrease in debt than of the gross increase. The middle-income group, receiving between $1000 and $2000, contributed 33 percent of the gross increase and 45 percent of the gross decrease in charge account debt. Families with incomes above $2000 are credited with approximately 27 percent of the gross increase and 36 percent of the gross decrease, although only 18 percent of the families increasing charge account debt and 22.5 percent of those decreasing it fell within this income class.

The families which went deeper into debt for charge pur chases augmented the amount due, on the average, by approximately $70, whereas the families which reduced their debt cut down the sum owed by almost $90. Both average increase and average decrease in charge account debt rose with

Chart XXIII

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



income. Average increase ranged from a minimum of $53 in the $0-500 class to a maximum of over $250 in the highest income level, and average decrease from a minimum of $45 in the lowest income level to a peak of $290 in the highest. Families with incomes between $500 and $2000, however, had only slight variations in average debt increase.

Chart XXIV shows that as income mounted, both average increase and average decrease in charge account debt constituted a diminishing proportion of the family receipts. Average increase in debt amounted to 17 percent of the average income received by families in the class below $500, and to less than 9 percent in the $500-1000 class. For families in the income levels above $3000, however, this ratio did not exceed 3 percent. Similarly the ratio of average decrease in charge account debt to average income declined from over 14 percent for families receiving under $500 to little more than 3 percent for those with incomes of $5000 or more.

The average increase in charge account debt was less than the average amount of the decrease for all levels of income combined, and also in each income level above $1000, a finding which indicates that in general total charge account purchases per family amounted to less in the period 1935-36 than they had in the preceding year.[7] Lower-income families exhibited the reverse tendency, for below the $1000 income level average increase was larger than average decrease in debt.

## DIFFERENCES IN CHARGE ACCOUNT INDEBTEDNESS ACCORDING TO TYPE OF COMMUNITY[8]

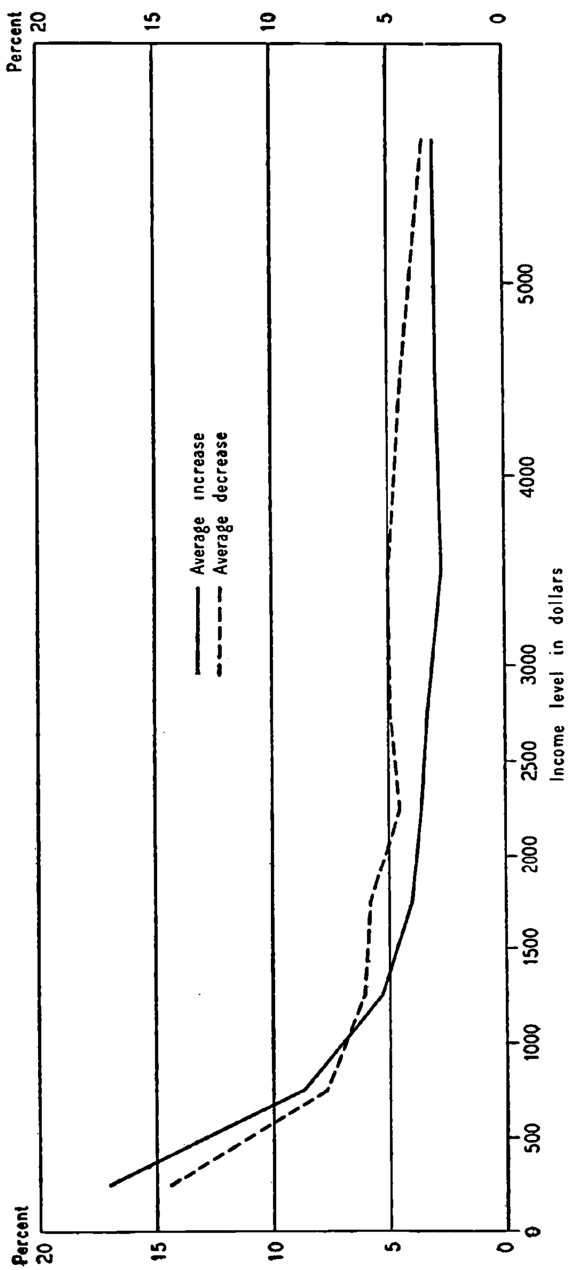
The extent of use of charge account credit differed from one type of community to another. The highest frequency (14

[7] Average net charge account sales per customer totaled $118 in 1935 and $103 in 1936. *Credit Management Year Book* (1936-37) p. 228. A corresponding figure for 1934 is not available.

[8] See Tables C-7 through C-12 for detailed breakdowns of the data by type of community.

Chart XXIV

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

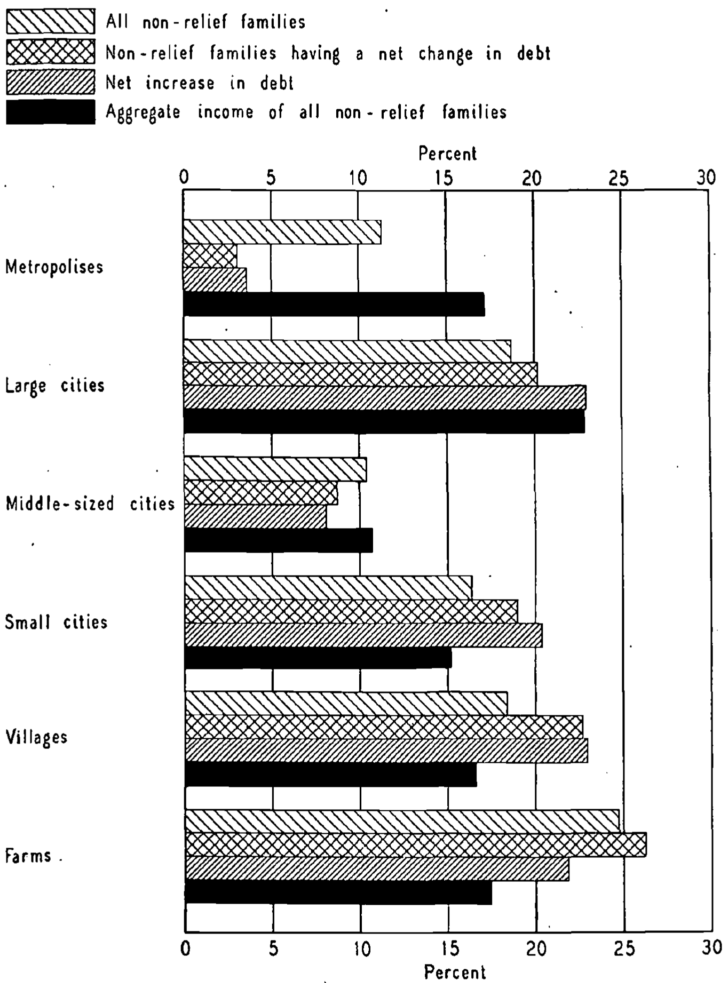


percent) was noted for families living in villages; these were followed by residents of small cities (13 percent). Of the families living in large cities and on farms approximately 12 percent were indebted for charge purchases, and of families in middle-sized cities less than 10 percent. These data indicate that charge accounts are an important means of consumer financing not only for families whose incomes are received weekly or monthly but also for those whose income is concentrated during a few months of the year. Particularly striking is the fact that this type of indebtedness was much less common in metropolitan centers than in any other type of community: only 3 percent of the metropolitan families changed the amount owed for charge account purchases in the period under discussion.

Variations in the use of charge account credit are revealed also, as in Chart XXV, by a percentage distribution of families indebted for charge account purchases and by a distribution of the net increase in debt according to type of community. Metropolises, comprising over 11 percent of all non-relief families which obtained over 17 percent of the total income for such families, had only 3 percent of the families indebted for charge account purchases and accounted for less than 4 percent of the net increase in debt. Although the divergence was not so marked, middle-sized cities too had a less than proportionate body of charge account debtors as compared with their contribution to the non-relief population, and a still smaller share of the net increase in debt. On the other hand, large and small cities and village communities, particularly the latter, had disproportionately large percentages both of families indebted for charge purchases and of the net increase in charge account debt. The share of the net increase in debt attributable to families in large cities, however, was about proportionate to their share of the aggregate income, whereas families in small cities and villages, though obtaining only 32 percent of the total income, accounted for over

Chart XXV

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



43 percent of the net increase. Finally farm communities, with more families indebted for charge account purchases than the size of their non-relief population would appear to warrant, accounted for a less than proportionate share of the net increase in charge account debt as compared with their population, but for a greater share of the net increase as compared with their portion of the total income.

If we analyze frequency of debt according to income level for the various types of communities, we find that it was highest in villages and small cities only among families below the $1500 income level.[9] For families whose income exceeded this amount frequency of charge account debt was generally highest in large cities. Other communities varied in ranking with gradations in income level, but metropolises consistently showed the lowest frequency of charge account debt for families in every income grouping.

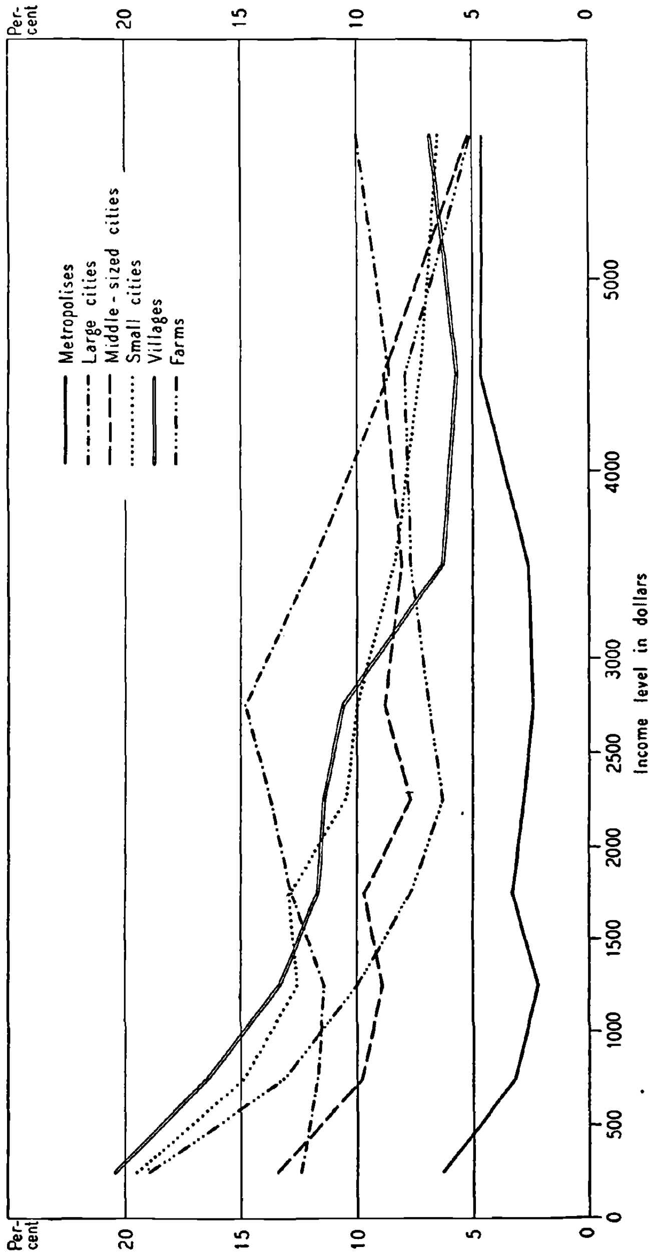
As Chart XXVI indicates, in the smaller types of community peak frequency of debt was reached in the lowest income level, declining more or less steadily as income advanced. In large cities, after dropping off from the $0-500 to the $1000-1500 level, frequency of debt moved upward to a peak at $2500-3000; this finding may well reflect the wider influence of department store charge account credit upon the budgets of middle- and higher-income families. Perhaps for the same reason a similar trend was apparent for metropolitan areas, where frequency of debt increased at the $1500-2000 level and again at the level of $4000 or more.

Although it is true that in every type of community more families were increasing than were decreasing charge account debt, a comparison of the distribution of these families discloses some variations in the responses of different types of community to a period of renewed business activity. We find, for example, that farm families exhibited a less marked tend-

[9] It will be recalled that for all income levels, villages and small cities likewise stood highest in frequency of debt. See above, pp. 83, 85.

Chart XXVI

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



ency to increase charge account debt than families in other communities; less than 25 percent of the families increasing their outstandings but almost 35 percent of those decreasing their debts lived on farms. These same families contributed less than 27 percent of the gross increase in charge account debt but as much as 39 percent of the gross decrease. Metropolises, large cities and small cities, on the other hand, supplied a somewhat larger proportion of families augmenting their commitments than of families reducing them; these communities also had a larger share of the gross increase than of the gross decrease. In middle-sized cities and villages families increasing charge account debt just about balanced the proportion of families decreasing it.

Data showing the average increase and average decrease in charge account debt do not indicate any striking differences in the total obligations per family in different types of community except as between farm and metropolitan dwellers. Farm families in each income class had either the largest or the next to the largest average debt increase and average debt decrease as well. In contrast, metropolitan families in virtually every income level had the lowest averages for both the increase and the decrease in the amount due for charge purchases. A comparison of the data for farm families with that for families in all non-farm communities combined, shows that the former had a larger average increase and a larger average decrease in debt in each income level than did the latter.

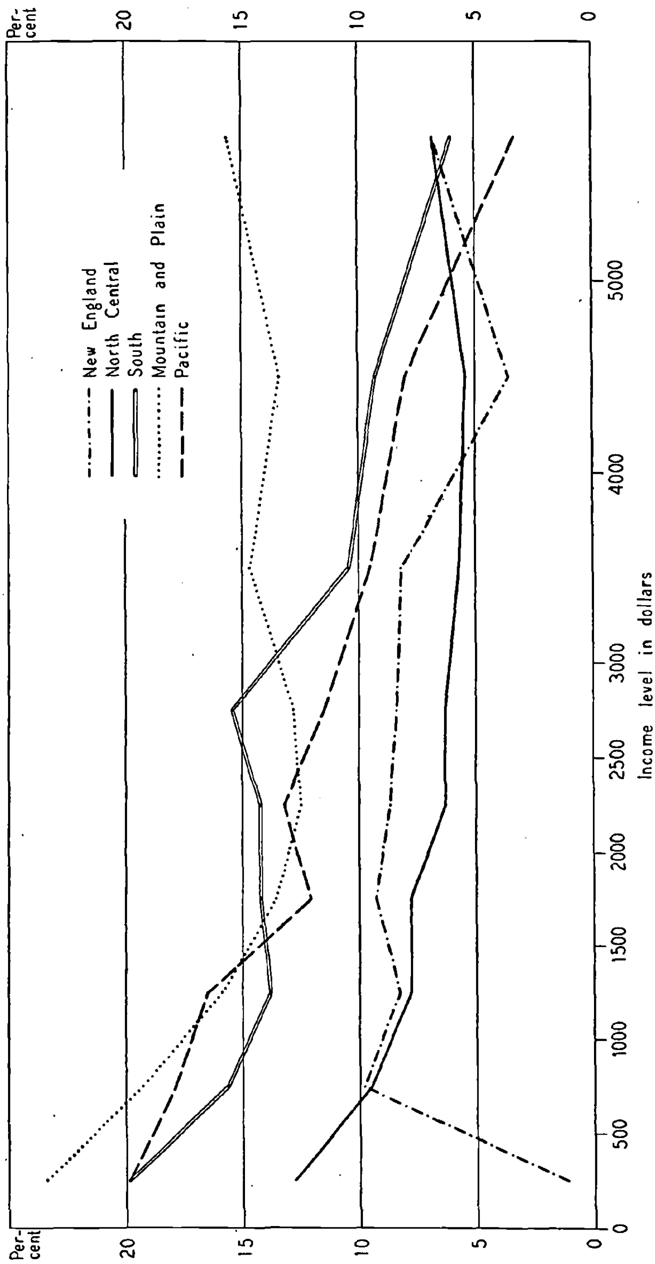
## REGIONAL VARIATIONS IN THE PATTERN OF CHARGE ACCOUNT DEBT[10]

Charge account credit was used most extensively by non-relief families in the West and South, as Chart XXVII indicates. In the Mountain and Plain region one out of six fami-

[10] See Tables C-13 through C-16.

Chart XXVII

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



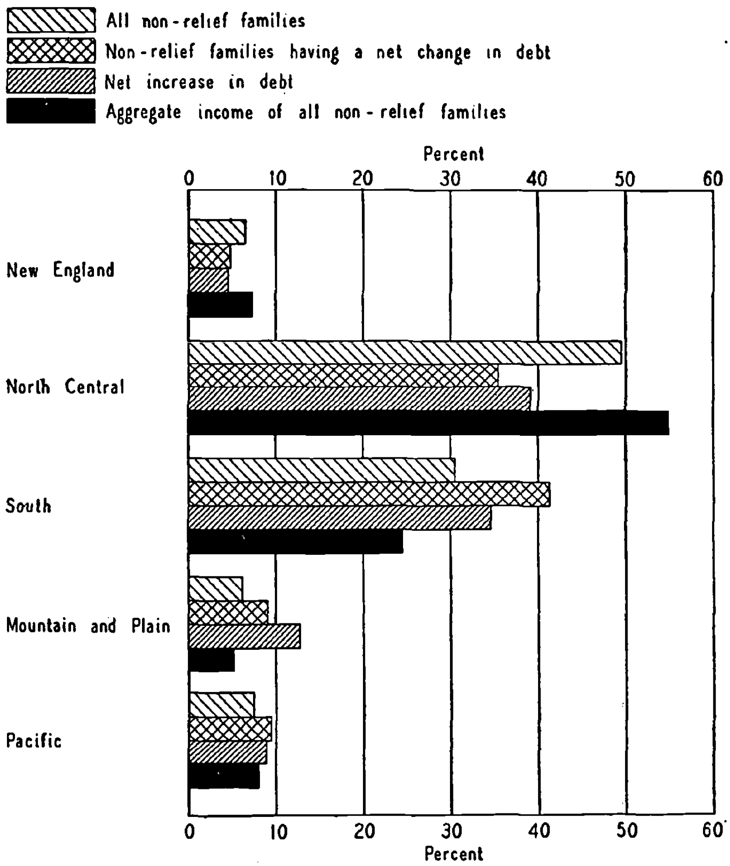
lies was indebted for charge account purchases, in the South less than one out of seven, and in the Pacific region just about one out of seven, but in New England and the North Central region only one family in twelve had a change in this type of indebtedness for the period under discussion.

Although they encompassed more than half (56 percent) of all the non-relief families in the country, the North Central and New England regions included only two-fifths of the families indebted for charge account purchases while accounting for 44 percent of the net increase in such debt. It is noteworthy, too, that these two regions received over 62 percent of the aggregate income of all non-relief families. Chart XXVIII illustrates the fact that the other regions all had a more than proportionate share of families indebted and of the net increase in debt than of all non-relief families or of the share of the total income they obtained. In the South dwelt less than one-third of all non-relief families but over two-fifths of the families indebted for charge account purchases; these families were responsible for approximately 35 percent of the net increase in debt though only 25 percent of the total income went to Southern families. In the Mountain and Plain region there were less than 7 percent of all the non-relief families; they received about 5 percent of the aggregate income, but supplied 9 percent of the families with charge account indebtedness and almost 13 percent of the net increase in outstandings.

For each income class the frequency of debt was generally lowest in the North Central region and next to the lowest in New England. The other regions interchanged first, second and third place with gradations in family income. More families in the $0-500 group than in any other were indebted for charge accounts in every region but New England, where the peak was reached in the $500-1000 income class. Three regions, the North Central, the New England and the Mountain and Plain, showed an increase in frequency of charge ac-

Chart XXVIII

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




count debt for the $5000-and-over group as compared with the income classes immediately below this level.

In every region, as in every type of community, more families were increasing than were decreasing charge account indebtedness. The tendency to add to such obligations was most marked in the South, which included over 42 percent of the families augmenting the amount owed but less than 37 percent of those reducing it. The South's share of the gross increase, however, was only 34 percent as compared with 33 percent of the gross decrease. All other regions had larger proportions of the families cutting down their charge account debt than of the families increasing it.[11] The Mountain and Plain region had a more than proportionate share of both the gross increase and the gross decrease in debt, whereas in other regions the distribution of the gross increase and the gross decrease was generally commensurate with the number of families increasing or decreasing this type of debt.[12] We may infer from these data that the sum owed per family for charge account purchases was greatest in the Mountain and Plain region and smallest in the South.

11 The difference was negligible in New England.

12 Except in the North Central region, which had a slightly more than proportionate share of the gross increase.