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THE NATIONAL RETAIL CREDIT ASSOCIATION--AN EXPERIMENT IN COOPERATION FOR RETAIL CREDIT CONTROL

by

Barbara Tharpe

A thesis submitted in partial fulfillment of the requirements for
Honors in the Department of Economics,
University of Chattanooga,
Chattanooga, Tennessee

May 1, 1946

Approved: [redacted]

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PREFACE

With the use of consumer credit becoming more and more widespread, there has been a growing feeling that its use should be controlled. This is an examination of the fundamental developments in the history of the National Retail Credit Association, the leading association of retail credit men, giving special consideration to the idea of credit control.

The credit abuses before any form of cooperation or control evolved are presented in the first chapter. Then, the part that the NRCA played in bringing about the cooperation of retail credit men is treated. The NRCA was the first to suggest voluntary control of credit through community credit policies. The next step in the control of consumer credit was the regulation by the federal government during the war emergency. Finally, the controversy over the continuation of federal regulation of consumer credit and the possible solutions to the problem are considered.

The material upon which this thesis is based was taken, for the most part, from various issues of the Credit World, the official publication of the NRCA.

I wish to express my appreciation of Dr. Clyde William Phelps for the use of his files and for his advice and assistance which have been of invaluable aid in the preparation of this thesis.

Barbara Tharpe

CHAPTER I

NATURE OF CREDIT

Credit is so widely used in the everyday transactions of our modern society that the general meaning of the word "credit" is generally understood, although it may be defined in a number of ways.

DEFINITION AND CLASSIFICATION

Albert F. Chapin defines credit as "an agency through which values may be transferred in the present while payment is deferred to some future time."[1] Theodore N. Beckman says credit is "a right to receive and demand payment, while a debt constitutes an obligation to make payment."[2] C. W. Phelps divides credit into two phases - potential credit and actual credit, and defines them separately. "Potential credit is the power to obtain present goods (goods, services, or money) in exchange for a promise to render a future equivalent. Actual credit is a creditor-debtor relationship which is created as potential credit is used."[3]

The two main classes of credit are public and private. Public credit is the power of federal, state, county, or city governments to secure present goods in exchange for a promise to render a future equivalent. Private credit is that used

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1. Albert F. Chapin, Credit and Collection Principles and Practices (New York: McGraw-Hill, 1930), p. 3.

2. Theodore N. Beckman, Credits and Collections in Theory and Practice (New York: McGraw-Hill, 1930), p.3.

3. C. W. Phelps, Retail Credit Fundamentals (St. Louis: National Retail Credit Association, 1938), p.5.

by private individuals or enterprises. Business enterprises use three types of private credit - investment, mercantile, and banking credit. Investment credit is used to acquire fixed assets and permanent working capital. It is long-term credit and is evidenced by such instruments as bonds, mortgages, and promissory notes. Temporary working capital is obtained by means of mercantile credit and banking credit.[4]

Consumer credit is used by the individual for consumption rather than for the purposes of production. This consumer credit is our primary interest in the present study. There are two main types - retail credit and personal loan credit. Retail credit may be further classified according to length of time. Short-term consumer credit includes the open account, or charge account, and instalment contracts of short maturity (often called "budget plan" accounts). Long-term consumer credit is represented by the instalment selling of houses, automobiles, and other durable goods.[5]

DEVELOPMENT AND GROWTH OF CREDIT

The very first form of trade or commerce was carried on by barter, but with the expansion of commerce, a medium of exchange became necessary. Simple forms of money evolved.

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4. Ibid., p. 7.

5. Ibid., p. 8.

Then because cash was not elastic enough to meet the needs of a more complex economy, credit developed. Men began to trust each other for labor and commodities for a special time at the expiration of which the equivalent in value would be returned.[6]

The earliest uses of credit are shrouded in the mists of antiquity. Discoveries of archaeologists prove that promissory notes, evidences of credit transactions, were used in Babylon 4,000 years ago. The Bible makes reference to credit regulations and practices existing before the time of Christ. Installment credit principles were used in the marine insurance contracts of Babylon and Phoenicia as well as in the purchase of real estate in Egypt and Rome.[7]

The growth of consumer credit to a position of importance is a comparatively recent phenomenon. As the Industrial Revolution changed the basis of social organization, it increased the importance of the individual as a consumer. The factory system, with its large-scale production, brought about the growth of consumer credit in its present form along two lines: to cushion the problems of insecurity in a capitalistic socieyt, and to open up mass markets in the lower income brackets by

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6. S. L. Gilfillan, "Then, Now and Tomorrow," Credit World, July, 1937, p. 6.

7. Phelps, op. cit., p. 9.

gearing production more closely to income.[8]

The consumer became a social problem because of the uncertainties and insecurities of modern life. Some form of credit is necessary to supply funds when an individual is overwhelmed by financial emergencies. Also, the well-being of industry came to depend more and more on consumer credit. Instalment credit began to be used as an instrument to put articles into the hands of people whose incomes were limited.

Consumer credit began to rise to a position of great importance after the turn of the twentieth century. From the time of World War I until 1930 there was considerable expansion of retail credit. More and more people began to buy on credit, and the retailers encouraged this trend because "credit is a means of increasing sales, first, by increasing the number of sales, and second, by increasing the size of the average sale."[9]

IMPORTANCE OF RETAIL CREDIT

It has been estimated that 13 per cent of the 17 billion dollars of retail sales in 1912 was made on credit and 20 per cent of the 37 billion dollars of retail trade in 1920 was transacted on a credit basis. In 1929, credit sales represented 34 per cent of the 49 billion dollars of retail sales. In 1935, some 21.3 per cent of sales by retailers was made on open charge account credit and 10.9 per cent on instalment credit. Thus,

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8. M. R. Neifeld, "What Consumer Credit Is," Annals of the American Academy of Political and Social Sciences, Vol 196, March, 1938, p. 64.

9. Chapin, op. cit., p. 91.

32.2 per cent of the 33 billion dollars of retail sales was made on credit. In 1938, probably one-third of all retail sales was made on credit, and of this credit volume, one-third was instalment business.[10]

It appears, then, that the proportion of total retail trade conducted on a credit basis steadily and significantly increased from 1912 to 1929, when it reached about one third. It maintained this proportion until the World War II period when consumer credit was drastically curtailed. In 1944, as shown by Table I, credit sales represented only 22 per cent of total retail sales.[11] With the return to peacetime conditions, a great expansion of consumer credit is envisaged.

There are other aspects to the importance of retail credit thanthose indicated by the mere recital of percentage and dollar figures. The use of credit by consumers may involve a blessing or a curse, for the other side of crddit is debt.

The consumer who uses his credit tosecure present goods or services is at the same time incurring personal indebtedness. He is pledging income not yet earned - mortgaging his future earnings - so that in the event of untoward developments he may become overwhelmed by debt. The accompanying worry, impairment of efficiency, family difficulties, and financial losses make the ultimate results of the use of credit a curse to may consumers. Obviously, some kind of control of credit is needed as a protection to the consumer.

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10. Phelps, op. cit., p. 10.

11. See following page for Table I.

TABLE 1. RETAIL SALES BY TYPE OF TRANSACTION
Annual estimates for total retail trade

Year	Sales(In billions of dollars)				Percentage of total sales		
	Total	Cash	Charge Account	Instal-ment	Cash	Charge Account	Instal-ment
1939	42.0	27.2	9.9	4.9	65	23	12
1940	46.4	29.9	10.7	5.8	64	23	13
1941	55.5	36.3	12.4	6.8	66	22	12
1942	57.6	42.5	12.3	2.8	74	21	5
1943	63.7	48.9	12.4	2.4	77	19	4
1944	69.3	54.2	12.8	2.3	78	19	3

Source: Retail Credit Survey--1944, Board of Governors of the Federal Reserve System, Washington, May, 1945, page 2.

The businessman who extends credit privileges unwisely to his customers decreases his profits and not infrequently ends up in bankruptcy, with financial loss not only to himself but also to his creditors. Clearly, credit control is necessary in the interest of business firms.

Finally, the overexpansion of retail and other types of credit exaggerates business cycles, making the depressions deeper and longer and adversely affecting society as a whole. Again, the need for controlling credit in some way or another is apparent.

This research into the history of the National Retail Credit Association is in reality a case study of a continuing experiment in retail credit control. The experiment is one involving voluntary cooperation to achieve some degree of control. At its beginning, ideas among the cooperating credit men as to methods of control were rather hazy and the purpose of control was conceived narrowly as being merely to advance the interests of the businesses concerned. With the passage of time, credit men gradually came to develop and to recognize definite effective methods of control, as well as to realize the need for control in the interests of the consumer and of society at large.

CHAPTER II

EARLY DAYS IN RETAIL CREDIT

Credit has come to be recognized as a selling force, which is becoming more impprtant each year. Merchants have encouraged its use in order to expand and develop their businesses.

But in the early years of the twentieth centyr, retail credit has not yet come into wide use. Instalment credit was employed but little and in only a few lines, and charge account credit was granted only to the rich and to the friends of the merchant. Under such conditions the merchant felt that he could depend upon his own appraisal of the credit worthiness of the customer.

LACK OF COOPERATION

Thus, these days were characterized by lack of cooperation among credit granters. Merchants were secretive regarding their credit operations, their customers, their terms, their systems, and their methods.

It has been claimed that the credit manager of a store actually ran the risk of losing his job if he were found in the company of the credit manager of a rival store. Also, it has been said that when one firm inquired of another about a person who was a good credit customer of the latter, the reply often would be made in such a way as to influence the inquiring store to reject that customer's application for credit. However, when the inquiry concerned a person who was a slow-paying credit customer or a deadbeat, a favorable reply would be made so as to mislead the inquiring store into accepting a poor credit risk.

In describing the early days of retail credit, S.L. Gilfillan, the first president of the National Retail Credit Association, indicated the handicap presented by this lack of cooperation:

> I will relate an experience I had during the first few days of my credit experience. I had written a debtor asking for money which was rightfully due us and long overdue. The debtor appeared immediately after receiving my letter, frothing at the mouth and informing me that our competitors did not treat him in that disgraceful manner.
>
> In those days we did not feel close enough to our competitor credit men to ask them about their experience with this debtor. (If I had, I might have received a misleading report.) Cooperation, which is so necessary in credit work, was conspicuous by its absence.[12]

The lack of cooperation among credit granters was not the only difficulty in doing a retail credit business. The methods of keeping records were inefficient. Gilifillan described his first credit office very vividly:

> A few record keepers sitting on high stools, with pencils behind their ears, posting charges with pen and ink to ledgers, huge bound books (each with a thousand pages), each weighing about forty pounds, each account so indexed as to give ground floor, and the charge checks were brought from all six floors, by messenger boys and girls, to be O.K.'d.[13]

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12. S. L. Gilfillan, "Early Beginnings of the National Association," Credit World, April 1937, p. 22.

13. S. L. Gilfillan, "Then--Now And Tomorrow," Credit World, July, 1937, p. 6.

Customers were uncooperative in their attitude toward handling their credit obligations. There was no attempt to educate the merchant and the customer about the advantages and corresponding responsibilities of using retail credit. There was a lack of helpful literature on the subject. The credit man had never thought of educating the customer regarding the value of good credit standing and his personal advantage in possessing it. In fact, the customer thought he was doing the merchants a great favor to allow his name to appear on the ledger, and he took great offense when asked for money, even though his account were long overdue.[14]

REALIZATION OF THE NEED FOR COOPERATION

As credit began to be extended to more poeple and in more kinds of businesses during the early years of the present century, it began to be abused. Gradually, there arose a greater need for cooperation and an increasing recognition of the existence of this need. The credit managers and store owners began to realize that competition in granting credit was bad for all concerned.

The increasing number of credit customers, who were no longer just the rich and the store owner's personal friends, brought a need for credit investigation, and it was readily appreciated that the best available source of such information would be the ledger records of other merchants.

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14. <u>Ibid</u>., p. 7.

The direct inquiry (one store asking another for its experience with the person applying for credit) was the method first used. Soon this began to be replaced by the more indirect, but more efficient, method of making credit inquiries to a central credit bureau to which all cooperating merchants reported their ledger experience with customers. This, cooperation among retail credit granters for the purpose of exchanging ledger information naturally and gradually began to develop.

Later, the idea of evolving a community credit control policy, or something similar, became more and more popular. This higher stage of cooperation - the adoption of a community credit control policy - developed logically from the earlier stage, the exchange of ledger information, and attempts to carry it out were made through the establishment of sound credit practices by membership in local and national retail credit associations and by cooperating with credit bureau.

Cooperation was also recognized as being necessary in order to plan for the passage of legislation beneficial to retail credit operations and to protect merchants from harmful legislation.

Of course, the main object of cooperation among retail credit granters was to reduce to a minimum the chances of loss from granting credit. The best ways of preventing loss are systematizing the work in the store's credit department and the exchange of information among credit granters. The local credit bureau is desirable to keep the credit records of the consumers in a community, and the local association of credit men is needed to further sound credit practices in the community.

It was not long before the need for interchange of information among credit bureaus and among credit managers in various communities was realized - a need which led to the formation of national organizations.

CHAPTER III

ORIGIN OF THE NATIONAL RETAIL CREDIT ASSOCIATION

An elementary, but significant, fact about human society is that man does not live and work alone. Men are led to form groups for the satisfaction, protection, and advancement of common interests. Many types of organizations have arisen in response to the mutual needs of groups of individuals. So it was in the field of credit.

In 1905, there were some local credit bureaus in the United States, but on the whole their procedures wer inefficient as compared with their present operating systems and methods. Gilfillan, in describing them said, "personal opinions instead of actual facts were given the credit man to base credit on."[15]

About 75 of these bureaus were organized as the National Association of Mercantile Agencies. Their national convention of 1912 was planned for Spokane, Washington, and knowing the desires of some retail credit granters to form a national association, the mercantile agency invited these credit men to meet with them.

Numerous letters were written to credit managers throughout the country, and althought the number of responses received was disappointing, and there was prejudice and lack of cooperation on the part of many merchants, the sponsors of the meeting were encouraged by the replies that they did receive.

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15. Ibid., p. 7.

were encouraged by the replies that they did receive.

In fact, the sponsors became enthusiastic, and as the time for the convention grew near, they began to expect five or six hundred delegates, and more money had to be raised. They told the Spokane Chamber of Commerce that this was going to be one of the greatest national conventions ever held in the City and the Chamber of Commerce donated $1,500. Thomas H. Jones, a charter member of the National Retail Credit Association, described the results.

"We had committees appointed, we had a certain number of fellows lined up for every train, and finally, the big special, the huge special coming from the East, was to arrive at the Northern Pacific Station at five o'clock in the afternoon. By this time, I think, we had managed to get together something like 3,500 or 4,000 dollars, and we couldn't figure how that was going to carry us through a convention of 500 to 750 people. So, with the town plastered with banners, and all of us strutting around with badges we went to the Northern Pacific Station to see this huge special roll in. The special arrived and 17 people got off!!"[16]

Only 52 credit managers attended the opening session, and 35 of them were members of the Retail Credit Men's Association of Spokane.[17] The meeting, however, resulted in the organization of the Retail Credit Men's National Association on August 12, 1912.

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16. Thomas H. Jones, "First Spokane Convention," Credit World, July, 1937.

17. Ibid.

This association was organized to standardize the granting of credit, so as to protect the retailer from loss and to make credit a factor toward increasing sales.[18] In order to minimize the chances of loss, the first important step was to systematize the work of credit investigation. Accordingly, the credit granters organized so as to facilitate the exchange of information regarding the paying habits of their customers.

The success of the organization would depend upon the degree to which the merchants and credit men were willing to cooperate. They had to learn to forget competition in regard to credit and to work together to eliminate undesirable accounts.

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18. D. J. Woodlock, "Editorial Comment," Credit World, May, 1932, p. 2.

CHAPTER IV

THE FIRST TWENTY YEARS, 1912-1931

The first twenty years of the National Retail Credit Association witnessed its most rapid period of expansion. The membership at the end of the first twenty years, in 1931, was greatest in all the history of the association. There were 17,507 members.

During this time, credit managers were faced with many new problems. There was a long period of great prosperity after World War I, characterized by wild and reckless buying and the promotion of instalment sales, the radio, automobile, and electric refrigerator, each presenting a problem.

Then came the crash of 1929, with its unemployment, slow collections, business failures, bank failures, and consumer bankruptcies.[19] The NRCA, with its sound credit doctrines, played an important part in helping the retailer through these trying times. The retail credit bureaus also rendered increasingly valuable service.

DEVELOPMENT OF THE NATIONAL ASSOCIATION

In 1916, in Colorado, the organization was incorporated under the name of the Retail Credit Men's National Association. In 1921, this organization of retail credit managers amalgamated with the National Association of Mercantile Agencies, the organization of the credit bureau managers. In 1927, the name was

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19. Woodlock, op. cit., p. 2.

changed to the present designation: the National Retail Credit Association.

The National Retail Credit Association started out in 1912 with 75 members. The membership increased steadily to 16,541 members in 1928. During the next two years there was a slight decline in membership, but a large increase in 1931 built it up to 17,507.[20]

BEGINNING OF THE CREDIT WORLD

The Association began publishing the Credit World in 1912, and has continued this periodical throughout the years. The Credit World started out as a quarterly magazine, but since 1914, it has been a monthly publication. It is the official publication of the NRCA and the only monthly magazine devoted exclusively to retail credit.

It furnishes leadership for all those engaged in credit granting, and keeps the members of the NRCA informed on national, district, and local association activities. It acquaints credit men with proposed legislation and points the way toward doing something about it.

The Credit World explains the up-to-date credit policies and procedures followed by modern managers of credit sales. It contains a table of actual collection percentages to enable members to compare their figures with those of firms in the same line of business in other cities. An effort is made to

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20. "Annual Reports of Officers and Committees to the 21st Annual Convention, Memphis, June 19-22, 1934," p. 1.

see that the articles in the Credit World contain ideas and opinions which will be of benefit to a large number of the members instead of to just a few, and also to present the material in a form easily read and understood.[21]

RISE OF THE CREDIT WOMEN'S BREAKFAST CLUBS

One of the most important events of the 1912-1931 period was the beginning of the Credit Women's Breakfast Clubs. In April, 1930, the first club was organized in Portland, Oregon. Mrs. Elsworth Johnson, who worked in the office of the Credit Reporting Company, conceived the idea.

Mrs. Johnson saw the advantages that credit men received through their association in civic, state, and national credit circles, and felt that credit women should have the same opportunities of contact and interchange of ideas. She gathered together some credit women of Portland, told them of her idea, and they formed the Portland Credit Women's Breakfast Club.

A second club was established in Spokane, Washington, five months later, and the third club was organized in Vancouver, British Columbia.[22] In 1943, there were almost two hundred such clubs in the United States and Canada, with a membership of 7,000.[23]

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21. Arthur Hert, "The Editor's Page," Credit World, March, 1940.

22. Avadana Cochran, "Credit Women's Breakfast Clubs--Objects and Purposes," Credit World, August, 1936, p. 8.

23. Lydia Kuhn, "The Place of Breakfast Club Women in the Credit World," Credit World, March, 1943, p. 14.

The primary purpose of these clubs is "to promote the interests of the credit women in their profession, and in particular to further the education of its members in the methods, practices and procedures of credit, and to promote good will, fellowship, and a better understanding among its members by personal contact and association, and to bring a closer cooperation between the credit departments and the credit bureaus."[24]

In Seattle, Washington, the organizers of the Credit Women's Breakfast Club were at first doubtful as to whether the club would be successful. They were afraid that the girls eligible for membership were too widely separated in social activities and interests to get together in a strong organization. They also feared that a meeting at seven o'clock in the morning would not draw a large attendance. But their fears proved to be unfounded.

The clubs generally meet at least one morning every month, and the members have found that a great deal can be accomplished. The main advantage of meeting at this hour is that no other social or outside interest interferes at that time.[25]

The purposes of the Credit Women's Breakfast Clubs, as set forth in the Constitution are: "(1) To provide a means of getting better acquainted with women interested in the same line

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24. Ibid., p. 14.

25. Cochran, op. cit., p. 9.

of work, (2) To develop friendliness and good fellowship, (3) To open our minds and broaden our experience through the discussion of our working problems, thereby enhancing our usefulness to ourselves, the firms we represent, and the community in which we live."[26]

Membership in these clubs has brought benefit not only to the members, but also to their employers. The members feel that they can help their firms in bringing about more effective operation. Through self-education, they learn more about methods of credit and collection. They strive to be more friendly and cheerful, to overcome misunderstanding and doubt, and to acquire self-confidence and self-control.

Employers derive a direct benefit from having girls and women in their organizations who are members of the Credit Women's Breakfast Club. The friendly spirit established between the members in the credit offices of different firms and in the credit bureau promotes cooperation. The breakfast clubbers show more interest in their line of work.[27]

The creed of the Credit Women's Breakfast Club is as follows:

I believe in the principles and purposes of Credit Women.

I strive always to become more efficient.

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26. Kuhn, op. cit., p. 14.

27. Ibid., p. 14.

I move forward in the endeavor of Credit.

I protect the confidence entrusted in me.

I am ready to give as well as to take.

I cooperate universally for the welfare of credit.

I am loyal to my club in thought, word, and deed.

I am true to myself, my association, and to my God.

I maintain always, Faith, Vision, and Courage.[28]

Time has proved that the Breakfast Club idea is sound and that the clubs are accomplishing the purposes for which they were organized. Through the clubs, the credit women have found a way to be of greater service in the field of their profession.

THE SUPERVISING COLLECTION DEPARTMENT

The Supervising Collection Department of the NRCA was organized in June, 1930, to give honest, reliable collection service on retail accounts. Creditors whose claims are forwarded to a member of the department are assured of reliable, efficient, and honest collection. Every application for membership in this department is rigidly investigated, and no one is admitted unless the investigation shows that he is fully qualified.

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28. *Ibid.*, p. 14.

A blanket bond covering business forwarded to any member of the department by any other member is carried by the NRCA in the Maryland Casualty Company. Creditors whose claims are forwarded to a member of this department are thus assured of reliable, efficient, and honest collection service on retail accounts. This has not always been possible before.

In order to maintain the highest standard of efficiency in the various credit reporting and collection service units who are members of the NRCA, it was necessary that educational work be carried on. Considerable data was made available to bureau managers as to organization methods in a book, entitled Credit Bureau Management. An educational course for the members of the Supervising Collection Department was prepared. The NRCA began to issue twice a month a Service Bulletin to members of those departments containing suggestions for improved service. The NRCA also employed four field men who constantly visited bureaus in the various parts of the country in order to help them with their problems.[29]

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29. Lyman P. Weld, "Activities of the National Retail Credit Association," Credit World, April, 1932, p. 29.

CHAPTER V

THE THIRD DECADE, 1932-1941

In 1932-1933, the United States experienced the depths of the great secondary postwar depression. Credit business generally had tended to decline since 1929, and organizations of credit men had been unfavorably affected.

ORGANIZATION OF THE OLD GUARD COMMITTEE

In 1933, the "Old Guard Committee" was formed to revive interest and enthusiasm among retail credit managers and to build up membership in the National Retail Credit Association. The Association realized that credit managers needed to be aroused to an appreciation of their place in our commercial structure. The needs of the time called for new credit policies. The efficiency of credit bureaus needed to be increased.[30]

The Old Guard Committee was formed to accomplish these things. About a hundred members were asked to serve on the Committee with the idea of eventually having a committee member in every important city.[31] These members were to organize local and state Old Guard Committees.

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30. D. J. Woodlock, "The Old Guard Committee," Credit World, February, 1933, p. 3.

31. Leopold L. Meyer, "Old Guard Committee--Its Purposes and Objectives," <u>Credit World</u>, January, 1933, p. 8.

The objectives of the Old Guard Committee were sevenfold:

1. To arouse themselves to a consciousness of their own significance in the credit world and to arouse the credit fraternity as a whole from its dormancy in credit affairs in general and in the affairs of the National Retail Credit Association in particular.

2. To develop outstanding credit men in their respective communities and to cultivate potential leadership in these men in order that such men might, in the course of events, and through meritorious accomplishments, ultimately administer the affairs of the NRCA.

3. To suggest and work out educational features which would add interest to local association meetings.

4. To advise and counsel credit bureau managers for the purpose of developing the credit bureau, with regard to both service and necessary revenue.

5. To sponsor, encourage, and cooperate in the establishment of new credit theories and policies practicable under the changed economic conditions.

6. To prepare short, inspirational articles for the Credit World. These articles were given a special publicity by the editors.

7. To educate the merchants of this country to the necessity of sending their credit managers to conventions in order to insure a contact with other credit managers, as a

result of which a badly needed broader interchange of credit thoughts and ideas might be developed; and also to remind the merchants that the 1934 Memphis Convention was to be dedicated to a serious consideration of the vital problems then confronting the credit fraternity.[32]

The name "Old Guard" was a term that had been applied for many years to those credit men who, by their deeds, actions, and accomplishments had always had their names linked with the NRCA. Every living past president of the national association was invited to serve as a vice-chairman of the Old Guard Committee.

The Committee played an important role in revitalizing the NRCA during the business recovery period. This was evidenced by the gradual increase in membership in the NRCA from 1933 until 1941, when there were 16,638 members.

THE CONSENT DECREE

One indication of the growth and importance of the National Retail Credit Association is that by 1933, it had become large enough to be proceeded against as a monopoly by the federal government.

In June, 1933, the United States filed a petition against the National Retail Credit Association, its officers, directors, and approximately 22,000 members including credit agencies, retail credit granters, local associations of credit men, department stores, merchants, mail order houses, banks, finance

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32. _Ibid._, p. 8.

companies, hotels, insurance companies, and business and professional men, charging violation of anti-trust laws.

The charges.

The specific charge was: "The defendants have combined and conspired to restrain and monopolize the aforesaid interstate trade and commerce in credit reports and information in violation of the Act of Congress approved July 2, 1890, entitled 'An Act to protect trade and commerce against unlawful restraint and monopolies.'"[33]

It was charged that the Association had in the files of its members practically all the credit information on the buying public of the United States. In other words, the Government maintained that the Association had a monopoly on the retail credit information of the nation.

The U. S. Department of Justice admitted that the monopoly was good for all concerned - the merchants, the retail buyer, and business in general. It also admitted that the great volume of retail business could not be carried on with the small percentage of loss incident to credit granting if credit information was not quickly available. If the Government had felt that the monopoly was harmful to the public generally, they would have asked for the dissolution of the Association.

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33. Service Bulletin, National Consumer Credit Reporting Corporation, Vol. 9, No. 10, June 5, 1936.

The Government said the practices which caused the monopoly were Rules 1 and 2 of the Service Department of the NRCA, regarding the admission of credit bureaus or credit reporting agencies to membership. It complained that there was an agreement that all direct inquiries should be referred to the local bureau; that bureaus refused to sell credit information or reports to non-members; that the agreements, rules, and regulations put into the hands of the defendants collectively, all or almost all of the interstate trade and commerce in credit reports in the United States; and that the effect had been unduly to restrain and interfere with credit agencies who were not members of the Association in engaging in interstate trade and commerce in credit information and credit reports.[34]

Disposition of the case.

In October, 1933, a Consent Decree was entered in the case whereby the defendants were permanently and perpetually enjoined or restrained from:

1. Designating and assigning any region or regions as the exclusive territory in which any member or members of the Association shall gather credit information or sell credit information or reports.

2. Refraining from gathering credit information or selling credit information or reports in any region or regions assigned as the exclusive territory of any member or members of the Association.

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34. Ibid., p. 7.

3. Refusing to sell credit information or reports to vendees in any region or regions assigned as the exclusive territory of any member or members of the Association except to and through a member or members of the Association.

4. Reporting, circulating, or in any manner publishing the names of persons or corporations who have sought, or are seeking to procure, buy or sell credit information or credit reports from or to any member or members of the Association except to and through a member or members thereof.[35]

The Association gave full publicity to the Consent Decree and tried in every way to have its members comply with the terms of the decree. It was hardly possible to keep unintentional violations from being made, with so large a membership and with the membership changing from time to time.

The stipulation.

In April 1935 the United States charged the Association and various individuals and credit agencies with violating the Consent Decree. Several of these pleaded guilty and were fined. The stipulation filed by the Association clarified the Consent Decree and stated what the members must do to carry out the intent of the Decree.

1. All individual members, that is merchants, stores, and the like must refrain from any agreement or any tacit understanding that they will

35. *Ibid.*, p. 7.

refuse to answer direct inquiries for credit reports and information. They will abandon any agreement or understanding and concerted practice of referring all such direct inquiries to Credit Bureaus of which they are members.

2. The Credit Bureaus or agency members of either the NRCA or the association of bureaus must give credit reports to members and non-members alike without price discrimination, except where the Bureau is owned or supported or controlled by the stores and there is a different price to the public, in which case prices to the public and not to the member stores will govern in connection with non-member inquiries local, foreign, and interbureau.

In other words, the Government took the position that the retail credit information of the nation which is in the possession of credit bureaus should be offered for sale, and that everyone who seeks to buy upon the payment of regular prices is entitled to be served. The individual merchant does not have to give or sell credit information on his customers to competitors or others who request it of him directly. But he must no agree (or combine) with other merchants to refuse to answer such direct inquiries.

The conspiracy that the government was alleging was not simply a deliberate evil act on the part of the retail credit granter. From his standpoint there was a feeling of resentment which was not wholly bad or evil, when other stores who didn't belong to the bureau and did not pay any money to the bureau, tried to get credit information free of charge.

DEVELOPMENT OF COMMUNITY CREDIT POLICIES

In 1934, retail merchants' associations in a number of cities began adopting community credit policies based upon the suggestions of the National Credit Executives Council of the NRCA. Outstanding features of these policies were standard terms, uniform billing dates, prompt collections, and carrying charges for delinquent accounts.[36]

"Community Credit Policies are either written understandings or gentlemen's agreements among the cooperating stores, or the managers of credit sales of the stores, establishing uniform rules concerning certain aspects of doing a credit business."[37] They may be divided into two categories: a credit policy, and a collection policy.

"The credit policy is concerned with such things as classification of accounts (definition of monthly, budget plan, and instalment accounts), advertising of credit terms, instalment terms, use of standard application forms, obtaining a credit report on each applicant from the local credit bureau, and a definite time of closing books for each month's charge business.

"The collection policy embraces dates for mailing monthly statements, dates upon which monthly charge accounts shall be considered due and past due, imposing a carrying charge on

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36. C. W. Phelps, Unpublished Manuscript, p. 1.

37. Ibid., p. 1.

slow accounts, suspension of credit privileges in the case of delinquent accounts after a specific period of delinquency, and pooling seriously delinquent accounts."[38]

Community Credit Policies originated as a reaction against competition in credit terms. The National Industrial Recovery Act of 1933 provided a stimulus to the movement. It was thought that competition in credit terms could be regulated by a Consumer Credit Code, similar to the regulation of competition by business groups through the enforcement of codes of fair competition provided for under the National Industrial Recovery Act.

The Code Committee of the NRCA prepared a statement on "Practices Incident to Retail Credit Extension," suggesting:

1. That merchants avoid practices which may result in the consumer becoming involved beyond his ability to pay, thereby impairing his future purchasing purchasing power.

2. That merchants take such reasonable measures as may be necessary, according to local conditions, to insure the prompt payment of debts in accordance with contracts, so as to secure the necessary turnover of capital.

3. That merchants make an adequate charge covering the financing function incident to deferred payment sales, and at the time of sale state the amount of such charge as distinct from the price of the merchandise.

4. That merchants require those whose accounts are overdue beyond a stated period, as determined by local community credit policies, to pay an interest

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38. Ibid., p. 2.

charge on such overdue balances; such stated periods might properly be regarded as either 80 or 90 days.

5. That merchants, in order to insure safety in retail credit granting, properly investigate all seekers for credit before extending such accommodations, by making use of reputable retail credit bureaus or mercantile agencies which specialize in such information and to whom a debtor or merchant may apply for, and furnish to, pertinent information for [39] the protection of both debtor and merchant.

The need for a plan such as a Community Credit Policy is evidenced by the fact that excessive competition in credit terms is a great handicap to the nation's business. When customers do not feel obligated to pay accounts with reasonable promptness, merchants lose money because of slow collections and a great deal of money is tied up in accounts receivable that should be employed in increasing the business.[40]

Leopold L. Meyer, chairman of the National Credit Executives' Council, proposed the following fundamentals:

1. Every application for credit should be cleared through a reputable credit bureau.

2. There should be national recognition of the justification in the charging of interest on past due accounts, because the cash customer should not have to bear the costs of a system in whose benefits he does not share.

3. Definite terms should be established for instalment accounts, stating a definite period beyond which accounts shall be considered delinquent.

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39. Ibid., p. 8.

40. Ibid., p. 15.

4. The theory of the pooling of accounts should be accepted as common practice.

5. The returned goods evil should be eliminated by stating a definite time limit within which merchandise must be returned.

6. The solicitation of new accounts as common practice should be frowned upon.

7. Every subscriber to the bureau should be required to sign an agreement to observe the code's tenets, stipulations, and requirements.[41]

There are three fundamental types of community credit policies.[42] The carrying charge type, which consists of the principle of charging interest on past-due accounts, has been used in approximately two-thirds of the communities having community credit policies. The charge is generally at the rate of one-half of one per cent per month.

The second type, the credit suspension type, is the practice of temporarily restricting further charge purchases when accounts have reached a specified degree of delinquency, usually 60-90 days.

The third, a general type, does not contain provisions for carrying charges or credit suspension, but includes rules on other matters. Some of the policies have contained rules on such matters as dates upon which accounts were to be considered due, advertisement of credit terms, pooling delinquent accounts, and merchandise returns.

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41. *Ibid.*, p. 21-24.

42. *Ibid.*, pp. 27, 30, 35.

SUMMARY

At the end of the third decade of its existence, in 1941, when the United States became involved in World War II, the National Retail Credit Association had increased its membership to 16,638 after recovering from a post-depression low of 11,711 in 1935.[43]

The Association was beset with heavy difficulties - notably the adverse effects of the great depression and the prosecution by the U. S. Government of the Association - but it carried forward a successful movement to revitalize its membership and also to advance consumer credit control through the formation of community credit policies. It was in good shape when this country was drawn into the recent war.

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43. Convention Program, 1942.

CHAPTER VI

ACTIVITIES AND ACCOMPLISHMENTS OF THE NRCA

RECENT DEVELOPMENTS

The NRCA gave the United States Government its complete cooperation during World War II. Regulation W was a war measure, promulgated by the Federal Reserve Board in order to restrain general inflationary tendencies and to assist in the war effort. The NRCA acknowledged the imperative need for government leadership during the war and complied with the restrictive regulation without questioning, as it well might have done, the soundness of the economic and social assumptions on which it was based.

Through the Credit World the NRCA kept its individual members up-to-date on the new amendments and additions to the regulation, and put out educational stickers and inserts for the stores to use in informing the public of its responsibilities in the use of retail credit.

Now that we have reviewed the history of the NRCA, we will summarize its activities and accomplishments.

ORIGINAL OBJECTIVES OF THE ASSOCIATION

The objectives of the Association as published in the January, 1915, Credit World were:

> Section 1. To bring its members, throughout the United States, into closer relationship for the purpose of interchanging ideas, methods, and information, and rendering mutual assistance.

Section 2. To assist in the organization and successful conduct of local retail credit associations.

Section 3. To promote better acquaintance and clearer affiliation between the credit men, the local associations, and the rating bureaus (now called Credit Bureaus).

Section 4. To disseminate at regular and frequent intervals, literature bearing on the subject of retail credits.

Section 5. To concentrate effort, and thereby have at command a more powerful influence in matters of legislation and law enforcement.

The Association has constantly worked toward these objectives, as its activities and accomplishments will show. Some of the evidences of success are:

An organization of thousands of retailers with credit bureaus in1075 cities; the merchant's recognizing the value of credit as a sales and service feature; the retailer's willingness to join other merchants in creating a community credit policy, and his knowledge that the man or woman in charge of his credit department must be a trained executive, a student of economics, and a diplomat; recognition of the NRCA by the United States Government in connection with the Department of Commerce Credit Survey; the establishment in the U. S. Department of Commerce (later, the Federal Reserve System) of a permanent bureau for collecting credit statistics; the securing of honorable mention for the NRCA in the American Trade Association Executives Award for the organization doing the most outstanding good; and installing at national headquarters a department of public relations to educate the public in the benefits of credit buying and prompt payment.[44]

The NRCA has taught that the requisites of sound credit are: proper investigation of applicants through a responsible credit bureau, cooperation of all merchants, elimination of undesirable accounts, insisting upon prompt payment, and not overselling customers beyond their ability to pay.[45]

The National Association has stimulated the organization of credit associations in hundreds of local communities. It has promoted credit studies, reaearch, and e ducational projects. It is unlike any other business organization in t hat it has brought competitors together in such a way that they forget competition as far as credit is concerned. It has awakened the credit manager to the importance and the responsibility of his position.

ACCOMPLISHMENTS

The accomplishments of the National Association are many.

(1) It has standardized credit procedure by promoting the adoption of standard retail terms.

Before its organization, retail terms were unheard of. People paid when and if they pleased and if the retailer wasn't satisfied, his competitor would gladly carry them on that basis. Grocers entered all purchases in a little book which customers carried; now and then - mostly the - a small partial payment was entered in the book. Accounts were seldom paid in full.

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44. D. J. Woodlock "Virtue Needs a Trumpet," Credit World, May, 1930, P. 11.

45. J. Gordon Dakins, "National Membership Pays Dividends," Credit World, January, 1944.

Merchants in farming communities carried the farmers from spring until after harvest, and had to be satisfied with a once-a-year pay-off.[46]

Today the merchants and their customers have been educated to realize that each month's accounts should be paid in full by the tenth of the following month. The Association also has constantly endeavored to eliminate competition in credit terms, and has advocated the carrying or service charge on instalment contracts as well as the plan of charging interest on past-due monthly charge accounts.

(2) The NRCA has safeguarded the collection of accounts.

In the old days the retail firm turned over the accounts he couldn't collect to a professional collector. Maybe he collected them, maybe he didn't. If he did, maybe he paid the merchant, and maybe he didn't. Today the merchants can place accounts for collection either locally or anywhere in America, with a responsible collection organization bonded by the National Retail Credit Association.[47]

(3) It has sponsored the formation of many local, retail credit associations which carry out the policies of the National Association and make it possible for local merchants to meet and discuss credit problems and their mutual advantage.

It furnishes leadership as well as plans, programs, and speakers for state, district, and national conventions.

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46. Daniel J. Hannefin, "Don't Cancel Your Insurance When You Hear the Fire Alarm," Credit World, February, 1933, p. 25.

(4) One of the greatest benefits is the power of the National Association to promote and encourage beneficial legislation for the protection of the retail credit granter.

Where one credit granter, working alone would be powerless, thousands of them cooperating together in the NRCA are able to make their influence felt in matters affecting their mutual interest.

A Washington office is maintained by the NRCA to watch legislation affecting retail credit, and the membership is kept informed through bulletins and articles in the _Credit World_. Practically every improvement in the national and state laws of benefit to the retail credit granter has been brought about by the NRCA or by its affiliated state associations with the National's support. Some examples are:

> _Protective laws_--Passing of new laws or strengthening old ones against bad check passers, forgers, and other credit frauds; strengthening of garnishment laws; the passage of a federal law providing for a new address to be furnished on forwarded registered mail, a great help in locating "skips."
>
> _Bankruptcy revision_--The Association backed several bills in Congress to revise the Federal Bankruptcy law to protect retailers and professional men.
>
> Return of two-cent postage--The NRCA brought about the reduction of first-class mail rate from three cents to two cents for local delivery before World War II.[48]

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48. _Ibid._, p. 25.

The NRCA has cooperated with the federal government (first, the Department of Commerce and later the Board of Governors of the Federal Reserve System) in the gathering of data for the annual Retail Credit Survey and other related studies in retail credit.

(5) The National Retail Credit Association has maintained leadership in credit education.

It has published a number ot textbooks on retail credit, for example, Retail Credit Fundamentals, by Dr. Clyde Wm. Phelps, and Streamlined Letters, by Walde J. Marra.

For a number of years it has sponsored credit schools in the United States and in Canada, and has provided the textbooks for these schools. The most recent development is the Home Study Plan, which offers extension courses in retail credit and business letter writing to those who are unable to attend the credit schools.

The NRCA has sponsored Pay Promptly Campaigns. The advertising material is furnished by the Association. The public has been educated to the importance of keeping good credit records. The Association has also put out a thirty-minute educational film, "Credit--the Life of Business," which has been useful in giving the public a wider knowledge of good credit habits.

(6) One of the major activities of the NRCA was to provide a means whereby the credit records which people established in one place would follow them wherever they might go.

This was made possible originally through the establishment of the Service Division, which consisted of over 1,200 credit bureaus throughout the United States and Canada. Any bureau can quickly secure from any other bureau a standard credit report. The National Association also sought to have in every city and town in which there was no credit bureau, a reliable correspondent, so that accurate credit information could be readily secured on every person, wherever he might have lived.

Today, these activities are carried on by the Associated Credit Bureaus of America, Inc., which is a separate organization, but which works closely with the National Retail Credit Association.

(7) Pooling of claims is a policy promoted by the NRCA.

When a customer owes several members and cannot pay promptly, it is a good idea for the creditors to pool their claims. Then, on each pay day, the debtor pays a certain amount to the local credit bureau, which distributes this payment among the creditors. This plan saves many consumers from bankruptcy.

(8) The NRCA promotes the development of new methods, new thoughts on credit problems, and new and better credit practices through the <u>Credit World</u>, through state or regional conferences, and through annual conventions.

Some of these projects have been standardized retail terms, community credit policies, the plan of charging interest on delinquent accounts, and the pooling of accounts.

CHAPTER VII

FUTURE OF CONSUMER CREDIT CONTROL

During the quarter century preceding World War II, various states enacted legislation providing for the establishment and regulation of credit unions, Morris Plan or industrial banks, small loan companies, and other consumer credit institutions, Toward the end of the inter-war period, a few states passed laws regulating instalment selling.

But none of the states sought to control consumer credit in the sense of setting maximums for terms and minimums for down payments in the case of instalment credit or of requiring the suspension (or "freezing,") of delinquent accounts in case of regular charge accounts. This type of government control was introduced by the federal government.

CONSUMER CREDIT CONTROL BY THE FEDERAL GOVERNMENT

The first step was taken by President Roosevelt on April 27, 1941, when he outlined a seven point economic policy for preventing an undue rise in the cost of living. The seven points were as follows:

1. Tax heavily and keep personal and corporate profits at a reasonable rate.

2. Fix ceilings on all prices and on rents for dwellings in areas affected by war inductries.

3. Stabilize remuneration received by individuals for their work.

4. Stablize agricultural prices.

5. Encourage all citizens to purchase War Bonds with their earnings instead of using those earnings to buy unessential articles.

6. Ration all essential commodities of which there is a scarcity.

7. Discourage credit and instalment buying and encourage the paying of debts and mortgages and other obligations.[49]

It was the seventh point that furnished the basis for control of consumer credit by the federal government. To achieve this objective, The Board of Governors of the Federal Reserve System was given the responsibility for dealing with consumer debts. The Board's Regulation W handling this subject became effective on September 1, 1941. Since then the regulation has been amended from time to time.

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49. "Regulation of Consumer Credit," Federal Reserve Bulletin, Vol. 28, No. 5, May, 1942, p. 399.

The significant provisions of Regulation W were:[50]

1. It contained a long list of consumers' durable goods, classed in four groups, each group having different payment requirements for instalment selling.

Examples of the listed articles are electric appliances, furnaces, jewelry, luggage, silverware, and furniture.

2. The maximum permissable maturity of instalment sales was twelve months, and the required down payment, 33 1/3 per cent.

Exceptions to this rule included instalment sale of automobiles (down payment of 33 1/3 per cent and maximum maturity of fifteen months) and furniture and pianos (down payment of 20 per cent and maximum maturity of twelve months).

3. The revised Regulation provided that instalment payments shall not be less than $5 per month of $1.25 per week.
4. With respect to charge accounts, the Regulation provided that unless payment is made by the tenth day of the second calendar month following the purchase, no further credit may be extended to purchase any listed articles until the items in default have been paid for in full or have been placed on an instalment basis for payment.

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50. _Ibid._, pp. 399-400.

5. Single payment loans of $1,500 or less were limited to a maturity of 90 days. If not paid in 91 days, the loan must be placed on an instalment basis.

Reasons for Promulgation of Regulation W

At the time of the adoption of Regulation W, Chairman Eccles of the Board of Governors of the Federal Reserve System issued a public statement as to the purpose of the Regulation. He stated among other things, that:[51]

> It is of primary importance that restraints be placed upon the wholesale extension of credit, including instalment buying. The volume of instalment credit has been expanding very rapidly, as it always does in times of rising national income.
>
> Yet when incomes are at high levels, that is the time when people should reduce their debts or get out of debt. Our people can not spend their increased incomes and go into debt for more and more things today without precipitating a price inflation that would recoil ruinously upon all of us.
>
> Instead of an ever-expanding volume of consumer credit we need to bring about a substantial reduction in the total outstanding. Civilian demand for goods must be adjusted as closely as possible to supplies available for consumption. Regulation of instalment credit is a necessary measure to this end.
>
> By deferring civilian demand at this time we can help avoid inflation, we can aid in defense, and we can store up a backlog of buying power that will offset a post-defense slump.

Regulation W was promulgated by the Board of Governors of the Federal Reserve System under an Executive order of the President with the official explanation that its purpose was:[52]

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51. Ibid., p. 401.
52. "Message to the President," Credit in Canada, January, 1946.

> To facilitate the transfer of productive resources to defense industries, to assist in curbing unwarranted price advances and profiteering, to assist in the restraining of general inflationary tendencies, to promote the accumulation of savings available for financing the defense program, to aid in creating a backlog of demand for consumers' durable goods, and to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the postwar period.

Regulation W, which was designed to reduce spending power by regulating credit, was direct type of governmental regulation and an encroachment in the business and personal affairs of the citizens. But the public appeared to realize that it was a necessity in the Government's program to protect the people from an upward spiral in the cost of living.

The promise was made that this emergency measure was not to be used as an excuse for instituting reforms of business practices or eradicating abuses such as might exist in the consumer credit field.[53.]

The Decline in Consumer Credit

By June, 1943, all forms of consumer credit had been reduced 40 per cent since the date upon which Regulation W became effective. In contrast to this great reduction in the amount of consumer credit outstanding, total consumer expenditures for goods and services had increased steadily, so there was no indication that the demand

53. Ronald Ransom, "Regulation W," Credit World, July, 1942, p. 4.

for consumer goods was affected at all by reductions in the amount of consumer credit outstanding.[54]

Total consumer credit outstanding declined from a peak of slightly over 10 billion dollars in the fall of 1941 to about 5 billion dollars at the bottom in the spring of 1944.[55] Other factors, which were more important than Regulation W, were the lack of high-priced consumers' durable goods and the larger wages of workers during the war period. These two factors would have brought about a great decline in the volume of consumer credit outstanding, Regulation or no Regulation.

CONTROVERSY AS TO THE CONTINUANCE OF REGULATION W

Credit executives, business men, and the Federal Government have been reviewing the operation of Regulation W and trying to determine whether its continuance would be desirable in a peace economy.

Arguments for Continuance

1. One of the main arguments for the continuance of the Regulation of consumer credit is that such regulation has been of benefit to business in general.

It is believed by some that Regulation W fulfilled its purposes, at least in part, and that it should be continued as long

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54. "Regulation W--On Its Second Birthday," Consumer Credit, September 16, 1943.

55. Federal Reserve Bulletin, Vol. 31, No. 5, May, 1945, p. 411.

as the distorted economy remains. It has played a part in reducing the amount of debt owed for goods, slowing down the use of credit and increasing the use of cash. Collections have been speeded up because of the policy of freezing delinquent acounts. The cash position of stores is improved, and the personal finances of the customer are maintained on a more even basis.

From the credit executive's viewpoint, the Regulation has provided him with a valid reason for the denial of further credit, He can simply tell the "frozen" customers that the Government will not allow him to extend further credit to them until their past-due accounts are paid.[56]

Ivan E. Brown, who is the manager of the personal loan department of a bank, urges the continuance of credit regulation. He states: "Business in itself has not been able to organize in the past and regulate credit, although many concerns have raised their voices against unsound practices. They are obliged to compete with the selfish and unscrupulous merchants and financial agencies who set up their own rules of business and credit.

"From 1923 to 1929, all efforts and advice were not sufficient to curb the impulses of consumers to spend their money. It takes compulsory control by the government or other source. Unregulated credit leaves a way open for users of credit to overload

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56. Leonard Berry, "Regulation W," <u>Credit World</u>, February, 1944, pp. 6-7. Mr. Berry is the credit manager of an Eastern Department store.

themselves with debt."[57.]

Joe H. McFarland, assistant-secretary-treasurer of a printing company, is "positive that business in general is in a healthier condition now, due to government regulations, and that our national credit economy will be based on a more solid foundation due to government regulation of credit.[58.]

2. The other important argument for the continuance of Regulation W is the prevention of inflation.

Dr. William Trufant Foster, Director, Pollack Foundation for Economic Research, says: "Before Regulation W, consumer credit was expanding at the rate of more than a billion dollars a year. It has since been reduced, through payment of debts, at about the same rate. This movement, as far as it goes, is directly deflationary. Indirectly, it helps to curb consumer buying, for it reduces the payroll of all consumer credit agencies. Thus, to date, credit regulation has helped to offset the forces of inflation."[59.]

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57. Ivan E. Brown, "Resolved: That Regulation of Credit is of Benefit to Business in General, Affirmative," Credit World, April, 1943, p. 18.

58. Ibid., p. 16.

59. Dr. William Trufant Foster, "Can Consumer Credit Control Curb Inflation?" Credit World, September, 1945, p. 3.

It is believed by some economists that instalment credit should be restricted because they think the overexpansion of instalment credit exaggerates the business cycle.[60.]

Arguments for Discontinuance

The school of thought opposed to the continuance of Regulation W seems to be larger than the affirmative school, and their arguments are more varied.

1. One of the main arguments is that the restriction of credit has been direct interference on the part of the government with private initiative.

James I. McMahon, the president of a furniture company, says: "Permanent control of retail instalment credit will shackle the initiative of merchants, curb the rights of the public, and prove a boomerang to those who now favor such regulation when low down payments and long terms are ordered by Government mandate. Let us resolve now not to ask for a law to replace Regulation W. Let us remain masters of our own economy, and let us reserve for ourselves the right of judgment, based upon good economics."[61.]

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60. This point is debatable and will be discussed later.

61. James I. McMahon, "Post-War Regulated Credit," Credit World, December, 1944, p. 13.

According to Leonard Berry, a department store credit manager, only under the grave necessity of a war would such an unnatural imprisonment of the delicate tool of credit receive the slightest nod of approbation from businessmen. Only the over-all national need for control of our finances would justify this constriction of our rightful freedom in carrying on our business enterprise. Only the timid and shortsighted credit executive would welcome perpetual substitution of the cold and unfeeling rules of government for his own powers of credit judgment and discrimination.[62.]

J. E. Pickler, a credit manager, believes that the necessary amount of credit control could be obtained without government regulation. He states: "Regulated credit is not necessary. Nine months before the regulation went into effect, many large businesses, foreseeing the future, voluntarily reduced the length of their contracts and began to operate on a conservative credit policy, consisting of good judgment, thereby creating sound principles on which to operate their business. Regulation has not helped collection of accounts. The customer who was slow-pay before the regulation went into effect is still slow-pay."[63.]

Representative Harold C. Hagen, of Missouri, states: "As an American citizen, I have a right of private contract.

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62. Leonard Berry, "Regulation W," Credit World, February, 1944, p. 7.

63. Hon. Harold C. Hagen, "Congressman Asks Abolition of Consumer Credit Controls," Industrial Banker, January, 1946, p. 7.

I can go to a merchant in my town and agree to pay him $1 down or $50 down on a $100 article. This is a matter for him and me to settle. The contract is between us and we, as American citizens, can make our terms.

"For the life of me I cannot see how such a contract is the concern of the Government. It is a legal contract between me and the merchant and freely entered into by both parties, and it is not the concern of the Federal Government. Such a contract does not constitute interstate commerce. How then can the Federal Government, in time of peace have any jurisdiction over it?"[64.]

2. Another argument for the discontinuance of Regulation W is that it is unfair to the lower income groups.

Dr. William Trufant Foster, who admitted that credit regulation helped offset the forces of inflation and prepared against a postwar period of deflation, thinks it is doubtful that much can be gained by further consumer credit control.

- He states: "Further restrictions on credit would leave many families with no way of meeting emergencies except extreme suffering, law evasions, or charity or resort to loan sharks. Every alternative is a bad one.

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64. Hon. Harold C. Hagen, "Congressman Asks Abolition of Consumer Credit Controls," Industrial Banker, January, 1946. p. 7.

"If Washington could devise regulations which would deny credit to the foolish buyers and borrowers, and have the others unrestrained, that would be a social benefit. There is no such device.

"As it is, in using consumer credit control for economic ends, a new project, the Government is in danger of hampering the established use of credit control for social ends."[65.]

The appeal of the Retail Credit Institute of America for immediate termination of the existing curbs on instalment buying, states: "Continued restrictions will force millions of middle and lower income families to cash their Government bonds and savings to enable them to buy the things they need.

"The regulation will prevent millions of displaced war workers from purchasing the products they need to equip themselves and their homes when re-employed by American business after migration to a new environment."[66.]

3. It is also argued that Regulation W is especially unfair to the veteran.

The Retail Credit Institute included the plight of the veterans in its appeal: "Continued restrictions will work great

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65. Dr. William Trufant Foster, "Can Consumer Credit Control Curb Inflation?" Credit World, September, 1944, p. 5.

66. "Termination of Buying Curbs Asked by Credit Institute," Industrial Banker, December, 1945, p. 10.

and needless hardships on millions of returning veterans and their families. These Americans lack adequate cash to re-equip their homes even in the simplest way and to rehabilitate themselves for civilian life. They are entitled to reasonable and flexible credit and merchants are ready to offer it on the basis of their character and individual credit worthiness."[67.]

Gary M. Underhill, Executive Director of the Morris Plan Bankers Association, states: "The veteran can buy a home under the GI Bill with no down payment and 25 years to repay. That's fine--as it should be. But why say to him: 'Sure, we want you to be able to buy a home; but if you want to buy an automobile or a refrigerator or a suite of furniture, you must be governed by our Regulation W.'"[68.]

4. Another argument for the discontinuance of Regulation W is that it will not be able to accomplish one if its main objectives--the prevention of inflation.

Inflation means higher prices, so to be an effective anti-inflationary measure, Regulation W should have the effect of holding down prices. But this is the work of the OPA price ceilings. The man with excess ready cash contributes more to inflation than anyone else. Yet Regulation W favors this man, for he is the only one able to meet the high down-payments required.

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67. Ibid., p. 10.

68. Gary M. Underhill, "What is the Real Reason Behind Regulation W?" Consumer Credit, March, 1946.

As long as OPA ceilings remain, Regulation W is useless as far as holding prices down is concerned.[69]

The Board admits that some hardships may occur under Regulation W, but justifies the Regulation upon the basis of helping all groups by holding down purchases and preventing price increases. In reply, the argument is made that: "It does not seem realistic to contend that undesirable effects are justified by any attempt to hold back inflation in a $160 million economy by restriction of $5 million or $10 million of consumer credit."[70]

Richard H. Stout, President of the Morris Plan Bankers Association, states: "The control over consumer credit is admitted to have had very little effect upon the inflationary pressures. The total amount of consumer credit at its peak was pitifully small in comparison to either annual budget, or the increases in wage income or the Government debt."[71]

5. Another argument for the discontinuance of the Regulation is that it has had adverse effects upon business in general.

Hugh Reagen, a Southern department store credit manager, says it has increased the burdens of the credit executive. It has increased the cost of doing business, by necessitating the adding of new personnel in the credit department. Regulated credit makes it difficult to retain the good-will of customers.

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69. Ibid.

70. Consumer Credit, February, 1946.

71. "Stout Takes Issue With the Paper Favoring Retention of Controls," Industrial Banker, January, 1946, p. 14.

It penalizes many an honest and deserving individual. Regulated credit decreases employment, because it has a tendency to decrease the volume of business.[72.]

It is noticed that there is a growing demand for immediate discontinuance of Regulation W and the elimination of what is regarded as useless interference with individual rights. "The absurdity of Regulation W in an era of scarcity of consumer goods promises to be outstripped by its viciousness if it is continued into the postwar period."[73.] In fact, the soundness of Regulation W has been questioned from the beginning, and its application has proved that this form of control of consumer credit carries with it inequalities in distribution.[74.]

POSSIBLE SOLUTIONS

The history of consumer credit in the United States shows three periods of development in the use of credit. The first was a period of complete freedom and independence in the granting of credit. The second period was characterized by some degree of cooperation on the part of credit granters through association with the NRCA, and a few attempts at voluntary control through

72. "Resolved: That Regulation of Credit is of Benefit to Business in General, Negative," Credit World, April, 1942, pp. 17-19.
73. "End Credit Control Now," Cooperation, New York, December, 1943, p. 6.
74. "Is Regulation W Obsolete?" Cooperation, New York, June, 1943, p. 3.

community credit policies. The third is the present period of regulation and restriction of consumer credit by the Federal Government.

We now have to decide the future of consumer credit control. Some feel that credit is a private contract and obligation on the part of the merchant and the consumer and that it should be completely unrestricted. Others think that some degree of control is desirable to protect the merchant from credit risks, and the consumer from becoming loaded with debts beyond his ability to pay. There are three possible solutions.

1. <u>The Removal of all Restrictions</u>

Government control of credit could be terminated either now or after the present emergency. The individual merchant could then formulate his own credit policy, protecting himself from risks in any way that he desired. The situation would return to that generally prevailing throughout the nation before the promulgation of Regulation W.

2. <u>Credit Control by the Federal Government</u>

The control of consumer credit by the Federal Government would mean the continuation of Regulation W, either in its present form, or with various changes. If the Regulation is to be continued for any time past the war emergency, it would be necessary for Congress to enact a law, for the present

Regulation was ordered under the President's war powers.

The Board of Governors of the Federal Reserve System definitely desires to continue Regulation W at least for the immediate future. Dr. Parry, who is in charge of the Regulation, favors giving up the control over charge accounts, because the volume of credit used on charge accounts doesn't fluctuate appreciably, and therefore, doesn't have any significant effect on business cycles. But since instalment credit is more volatile, he feels that its use should be regulated by the federal government.

The Board's objective in exercising credit control is to attempt to mitigate cyclical movements. There are several theories concerning the effect of the expansion of consumer credit on the business cycle.

Dr. Rolf Nugent has examined the relationship of consumer credit and national income during the period, 1923-1938. He says that the expansion of consumer credit was one of the causes of the prosperity in the late 1920's. The first and most important cause was the expansion of residential construction. The second was the rapid development of instalment merchandising and the growth of consumer credit facilities. The third cause was the rising stock market.

During the depression period after 1921, there was a contraction of consumer credit, but its effect on the cycle was indirect. The reduction of incomes compelled contraction of consumer credit, which, in turn, reduced profits, contributed to the further weakening of incentives for investment and induced still further reduction of income.

In 1933, the recovery period began and there was an expansion of production and of incomes. The positive contribution of consumer credit to expansion of the income stream during the latter part of 1933 was very modest, although it increased substantially in later years. Dr. Nugent concluded that the expansion of consumer credit was to a considerable extent a consequence of increasing incomes, rather than a cause.[75.]

According to Dr. Gottfried Von Haberler, of Harvard University, money and credit occupy such a central position in our economic system that it is almost certain that they play an important role in bringing about the business cycle. He explains R. G. Hawtrey's purely monetary theory of the business cycle. Hawtrey thinks the upswing of the trade cycle is brought about by an expansion of credit and lasts so long as the credit expansion is discontinued. There follows a period of depression and credit contraction, but finally loans are liquidated and money flows back into the reserves of banks and credit begins to expand again, causing a revival.[76.]

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75. Rolf Nugent, Consumer Credit and Economic Stability (New York: Russell Sage Foundation, 1939), pp. 198-219.

76. Gottfried Von Haberler, Prosperity and Depression (Geneva: League of Nations, 1939), pp. 14-25.

Dr. Ray B. Westerfield, of Yale University, says that it seems that the volume of consumer credit will vary with the business cycle, but it avails little in increasing total consumption, since credit merely gives present purchasing power at the expense of future purchasing power. Consumer credit may be employed to hurry recovery along, but a prerequisite to such credit extension is confidence, which itself is a product of recovery.[77]

The Board's policy of continuing control of consumer credit so as to restrain the inflationary phase of the business cycle seems hardly justified, since the expansion and contraction of consumer credit represents such a small factor in total credit. The main expansion of credit in this country is through the borrowing of the Federal Government, which now involves an enormous debt--56 times as large as the total of all consumer credit outstanding.

Although instalment credit does fluctuate, it is so small in amount compared to the total amount of credit, that it is doubtful that its control would have any appreciable effect on the business cycle. As to the past record of Regulation W's restraining the amount of credit, it had little effect, for there were so few goods available for instalment buying and such an abundance of cash that the use of much credit was neither possible nor necessary.

3. Voluntary Control of Credit

The third possible solution is the termination of Regulation W and an attempt to substitute voluntary control by community credit policies, which are organized by retail credit men, have been discussed in an earlier chapter.

They could be promoted by the NRCA as they were before the war, or they could be set up under newly enacted legislation to make their legality clear. This second alternative would be desirable because their legality is questionable, i.e., cooperation among retailers might be held as a conspiracy to restrain trade under the Anti-Trust Laws unless specific legal sanction for such cooperation were given.[78.]

There are various ways of providing for "voluntary" control of consumer credit by consumer credit granters. If such action were made legal, the enabling legislation might provide that in any community those credit granters who cared to do so could enter into a community credit policy binding upon themselves. On the other hand, it might provide that if a majority of the consumer credit granters in a given line of business (or in the entire community) adopted a community credit policy, all

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78. Recently, Mr. R. Preston Shealey, Washington counsel of the NRCA, has finally arrived at the conclusion that Community Credit Policies involving control of credit are definitely illegal. In an address before the annual business meeting of the NRCA in Cleveland, Ohio on May 16, 1946, after citing cases indicative of the present attitude of the Supreme Court, he concluded that credit men could cooperate in Community Credit Policies "to teach or to educate" the consumer but not to control credit.

other consumer credit granters in that line (or in the entire community) would be bound.

In either type of legislation the fundamental requirements and safeguards for consumers as well as for competing merchants might be set forth in the law. Any community credit policy adopted would have to conform to these requirements and safeguards, and it might be made the duty of the Board of Governors of the Federal Reserve System of the Federal Trade Commission to approve every community credit policy before the policy could be put into actual operation.

Such "voluntary" plans for consumer credit control would enable consumer credit granters in each community to adopt policies suited to local conditions. This would be regarded by many as a definite advantage over national control exercised as in the case of Regulation W. Also, in contrast with Regulation W, only a very small staff in either the Board of Governors of the Federal Reserve System or in the Federal Trade Commission would be needed.

In conclusion there are two questions to be answered: Do the American people desire to have their use of consumer credit controlled, and how complete a control do they want? What answers the people and their Congress will give to these questions, it is quite impossible to foresee at the present time.

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