

Wilbur C. Plummer: excerpts from *Social and Economic Consequences of Buying on the Installment Plan* (1927)

Web version: [http://international.loc.gov/cgi-bin/query/r?ammem/cool:@field\(DOCID+@lit\(lg25T000\)\):bibLink=D?coolbib%3A5%3A./temp/~ammem_h6lt%3A%3A](http://international.loc.gov/cgi-bin/query/r?ammem/cool:@field(DOCID+@lit(lg25T000)):bibLink=D?coolbib%3A5%3A./temp/~ammem_h6lt%3A%3A)

II. THE CAUSES OF THE GROWTH OF INSTALLMENT BUYING

Unused Productive Capacity.--In considering the fact that installment selling... had been a common practice in this country for fifty years before the recent extension of it... one naturally asks: "What are the forces which so suddenly have brought about the expansion of this form of selling to such amazing proportions within so much a short period of time?"

It is generally agreed that the beginnings of the recent expansions are to be found in the automobile business. In the beginning of the industry, manufacturers sold all cars at wholesale strictly for cash and opposed the retailer selling cars on any other terms than cash. In time, however, through a desire to increase sales and reduce the unit costs of production, plants were expanded and the manufacturers changed their attitude in regard to the retailer granting credit to the consumer. The easy terms to the consumer which were finally granted increased the amount bought, and as the automobile business has hitherto been subject to the law of increasing returns, the unit costs were decreased, thus under competitive conditions lowering the price to the consumer. The lowered price increased still further the amount demanded, and brought about a still further expansion of plant and equipment. ...

Competition Between the Same Kinds of Goods.--Competition between those selling the same kinds of goods is a causal factor in the growth of the system. ... If partial payment selling in a certain line of business stimulates sales and is successful otherwise, the individual who refuses to use this device suffers. He will not gain new business that he might have by offering easier terms and he may lose some of his present customers who are attracted to his competitor by the partial payments. The competition extends further than the mere granting of credit; it includes the offering of easier credit conditions in smaller down payments and a longer time in which to pay the balance. ...

Competition Between Different Kinds of Goods.--Another kind of competition, perhaps not so evident as the one just mentioned, but a real one nevertheless, is the competition between different kinds of goods. It is believed generally that if people had to pay in a lump sum for radios, automobiles, mechanical refrigerators, etc., that there would be fewer bought. ...

The following statements contain the same idea: "In order to possess non-essentials, many families are cutting down on essentials, setting a less nourishing table, buying fewer shoes and skimping on living quarters." "It is bad for a single industry like the automobile to make such deep inroads upon current earnings of individuals that the clothing, provision and construction industries might be starved."...

Advertising and High Pressure Salesmanship.--Modern methods of advertising and high pressure salesmanship are without doubt partly responsible for the extension of installment selling among

the poorer classes. The following statement... is worth repeating in connection with his point...: "Did you ever think of the strain to which people with small incomes are subjected by our continual pursuit of them to spend their money? Every newspaper, every magazine, every street, every railroad track, every street car, every country road is lined with advertisements carrying suggestions intended to be subtle, though often they are blatant, to buy, buy, buy. Every human impulse, good and bad, is played upon.

Not only do we advertise publicly, but we send letters and agents to the homes to try to extract from any and every one what money he has. In every way we set about deliberately to make a person feel that life will be a failure unless he or she uses this soap or shaving cream, drives this automobile, owns this radio, sees this movie or play, eats this food, wears this collar, takes this trip or reads this newspaper. This continual pressure relentlessly applied subjects our working-class population to a strain which they cannot withstand, nor could we in their places." Many of these people cannot resist the temptation to buy under these conditions, and consequently become easy prey for the high pressure salesman with his E.Z. TERMS. ...

Increased Real Incomes of the Working Classes.--When looked at from the side of the demand for goods on installment terms, a very real factor in the installment movement is to be found, we believe, in the increase in the incomes of the wage-earning classes of the last few years. Professor Alvin H. Hansen finds that real wages in 1925 were from twenty-five to thirty per cent above the prewar level. ...

As to whether this increased income helped to cause the extension of the installment system, we cannot say, but it certainly helped to make it possible. The increased income meant that people could buy and pay and consume more than formerly on any terms of sale. ...Credit facilities were offered them, through the development of finance companies, that were not available formerly...and the increased real income gave them more than sufficient purchasing power to meet all their installment obligations as they came due. ...

"Underconsumption."--An unusual explanation of the growth of installment buying which is worthy of notice, has been made recently ... It is contended that people can produce ...more goods than they are able to buy and pay for, and selling on installment credit has made it possible to continue production even when people were without sufficient purchasing power to pay cash. ...

XI. THE GENERAL CONCLUSIONS OF THE STUDY

Installment buying has been a common practice in this country for the past fifty years. Even though such has been the case, there was comparatively little growth of the system until it was introduced into the automobile business about ten years ago. The great extension of the installment business came in the years 1920-26, when the system underwent an enormous expansion in both volume of sales and number of industries affected. Exclusive of houses, life insurance, and stocks and bonds, all of which are sold on installments on an extensive scale, it is estimated that approximately six billion dollars' worth of goods are now sold at retail, which is approximately fifteen per cent of all goods thus sold. It is estimated that the installment debt outstanding at a given time is two and three-quarters billion dollars. ...

Previous to the recent expansion of the system, buying on the installment plan, except houses and insurance, was practiced almost entirely by poor people. At the present time, all economic groups are using it on an extensive scale. ...

Those who are inquiring into the soundness of the installment system usually attach a great deal of importance to the character of the goods bought on the plan and the use to which they are put. Are they producers' or consumers' goods? Durable or quickly consumable? Necessities or luxuries? The granting of installment credit for production purposes meets with little or no criticism. It is the granting of installment credit for the purchase of what are generally classed as consumption goods that has brought forth severe criticism.

One of the effects of installment buying has been the bringing into the present system of production a new middleman in the form of the finance company. An almost entirely new field of business has been created which has grown to colossal size within a few years' time. ...

The development of the finance company has had the very desirable economic effect of making possible steady production in the automobile industry... Equalized production under such conditions means lower costs to the manufacturer and in the automobile business has meant lower prices to the consumer.

Another effect of the finance company has been the bringing into the network of the credit system an army of new credit users, many of whom are unexperienced in the use of credit. This is a situation which seems filled with possible, disastrous consequences to the credit system and to the numerous individuals who may find themselves enmeshed in it when the next periods of crisis and depression come. ...Banks and producers' credit are accepted generally as most useful and necessary parts of our industrial organization and yet on occasion they have caused considerable disturbance in our economic life. ...

The price of installment credit to the consumer, as evidenced by the difference between the cash and credit prices of goods, varies greatly, ranging from nothing to as much as eighty per cent. The usual rate is from eleven to forty per cent. Another way of saying the same thing is that, as a rule, it costs the buyer as much more to buy on the installment plan as it would if he borrowed the money at an interest rate of from eleven to forty per cent and paid cash.

The price paid for automobile installment credit varies from eleven to twenty-three per cent on new cars, and from sixteen to forty-three per cent on used cars. Notwithstanding these finance charges, it is highly probable that the installment buyer is paying less for his car today than he would be paying as a cash buyer, if there were no installment system. This is due to the fact that the introduction and expansion of the installment system stimulated sales, made production on a larger scale possible and brought about economies of production which have been passed on to the consumer in lower prices. ...

Everybody wonders what will happen to the installment system in times of unemployment. The system was put to a practical test under such adverse conditions about a year ago during the five

and one-half months' strike in the anthracite district of Pennsylvania. We made extensive inquiry from the people living and doing business there as to whether their experiences were such as to make them lose confidence in installment buying or such as to give them faith in it. The opinion was unanimous that everything in their experience was such as to indicate that selling on the installment plan is a sound way of doing business. We do not attempt to generalize in any way on the experience of the anthracite regions; that is, we do not attempt to say what would happen in case of nation-wide unemployment such as occurs in a period of general depression.

An exceedingly important question in regard to installment buying is that of its effects upon the characters of individuals. It is the view of some people that it is creating a generation of improvident people--spendthrifts. This opinion rests upon the assumption that installment buying causes more extravagant spending than would otherwise occur. . . . It is undoubtedly true that installment buying causes some individuals to plan their expenditures and thereby leads to saving. But it is equally true that other individuals are led into extravagant spending by exactly the same set of circumstances.

This study will be concluded by an expression of opinion. What follows is not intended to be in any sense a scientific conclusion. It is mere opinion, but was formed only after conversation and correspondence on the subject of installment buying with hundreds of consumers, dealers of all kinds, manufacturers, finance company officials and bankers; also after careful consideration of probable social and economic consequences. We believe that the installment system performs a useful function in our economic structure and that it is here to stay. There are abuses which must be eliminated, such as extending credit without regard for any principles of sound credit. This kind of installment credit brings disaster to both borrower and lender as does the unwise extension of every other kind of credit. Then, too, there are dangers lurking in the use of the system which must be guarded against. But we believe that the system is an important contribution to modern economic organization, and that in time to come it will be recognized as such, even by those conservative people who, at the present time, see little good in it.