

Get Yourself Into Debt!

The American Dream and Consumer Credit

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The crisis currently affecting the United States is all the more serious when we consider how deep its roots go. The historian Louis Hyman shows how debt lodged itself at the heart of American capitalism during the 20th century. More than just an economic system, it is a genuine social model that has collapsed along with subprime loans.

Reviewed: Louis Hyman, *Debtor Nation. The History of America in Red Ink*, Princeton, Princeton University Press, 2011, 378 pp.

For the past few months, the public debt crisis has been the focus of everyone's attention and a source of great concern in Europe and the United States. One could almost forget that the crisis that has dealt a blow to Western economies over the last three years was not sparked by countries' inability to control their public deficit but rather by the growth of personal debt in suburban America. The subprime crisis, memories of which sometimes tend to be blurred, has been subject to detailed analysis by economists and political leaders. There has been no lack of interpretations and explanations, and these have proved relevant to varying degrees: short-sighted economic theories, the triumph of greed over public interest, government corruption, the havoc wreaked by financial deregulation,¹ and so on. They all have something in common: they trace the origins of the crisis back to the changes that took place in global finance during the 1980s and 1990s, as if things had reached a turning point, destroying the balanced manner in which economic growth had flourished since 1945. Capitalism had gone crazy, but only over the last 20 years, with the triumph of the neoliberal mindset.

¹ Jeff Madrick, *Age of Greed. The Triumph of Finance and the Decline of America. 1970 to the Present*, Knopf, 2011. See the review by Paul Krugman and Robin Wells, "The Busts Keep Getting Bigger: Why?", *New York Review of Books*, July 14-August 17, 2011, pp. 28-29: <http://www.nybooks.com/articles/archives/2011/jul/14/busts-keep-getting-bigger-why/>

These analyses partly obscure the deeper roots of the crisis into which the US economy has been plunged: for the historian Louis Hyman, author of *Debtor Nation*, household debt is not a recent imbalance; on the contrary, it has been one of the very conditions of the “American dream” since the 1950s, if not its essential purpose. Developed from a doctoral thesis defended at Harvard, this book invites us to reinterpret the history of twentieth-century America through the prism of the proliferation and increasing sophistication of the credit instruments made available to consumers. From that perspective, the explosive situation of the 2000s is put forward as the result of a long historical process that saw credit establish itself at the heart of American people’s daily lives, becoming a vital means of access to consumption. For the “American dream” has always been lived and purchased on credit: developing suburban housing, equipping houses with durable goods (cars, washing machines, etc.), shopping at the local mall – all of the purchases that proved one’s membership of the consumer society were made possible by taking out credit.² The ‘right to get into debt’ was therefore fundamental to the (utopian, of course) construction of a prosperous, classless society in postwar America – a nation that was anxious to establish its economic leadership within the context of the cold war.

This is the ‘financial revolution’ (p. 1) that placed debt at the heart of American capitalism and on which Louis Hyman focuses in his book, from the legalisation of loans and the experimentation with new lending methods in the 1920s, to the collapse of subprime lending in the 2000s. To do so, the historian dissects the often-complex links between public regulation, the strategies of economic stakeholders (traders, bankers, investors), and consumer behaviour. His work is part of a story that is still unfolding: that of institutions and lending practices, and which proves vital for understanding both the functioning of the markets and the social transformation that took place in Europe and the United States during the 20th century.³

² The history of the consumer society in the United States has been discussed in particular in the works of Lizabeth Cohen, *A Consumers’ Republic. The Politics of Mass Consumption in Postwar America*, New York, Knopf, 2003; Meg Jacobs, *Pocketbook Politics. Economic Citizenship in Twentieth-Century America*, Princeton, Princeton University Press, 2005; and Victoria de Grazia, *Irresistible Empire. America’s Advance Through Twentieth-Century Europe*, Harvard, Harvard University Press, 2005.

³ See the recent thematic reports listed in the ‘Further reading’ section below.

From Moral Disapproval to the Right to Get into Debt

The game, however, had not yet begun at the start of the 20th century: access to credit was still very limited, with the market controlled by loan sharks who practised their trade behind the scenes and at exorbitant interest rates (60-480% per year!). Reform groups, particularly the Russell Sage Foundation, were concerned by these abuses and campaigned in favour of government regulation. From 1917, several states took the step of legalizing small loans in order to better control them. The main barrier to increasing lending at the time was not only of an institutional nature, however; the fact of borrowing still provoked a kind of moral disapproval in people. The debt-ridden worker was considered irresponsible and incapable of controlling his needs or managing his finances properly. The 'saving' ethic had not yet been overtaken by the fondness for risk and credit on American capitalism's scale of moral values.

In the wake of the First World War, however, the 1920s saw a rapid rise in installment credit⁴ and mortgages. The major American corporations such as General Motors and General Electric then entered the era of mass production: the flow of goods required a dense network of dealers, and favourable payment terms for buyers. Without installment sales, which allowed payment to be divided up and repaid gradually, the thousands of automobiles coming out of the Detroit factories every day would doubtless never have found purchasers. Financial companies became a vital part of the link between production and mass consumption. Some even saw the rise in lending as a means of turning workers' attention away from the socialist movement and buying industrial peace in the factories.

Paradoxically, it was thanks to the Great Depression and the New Deal measures taken to mitigate its effects that lending became part of the American capitalist system for once and for all. The Roosevelt administration increased initiatives to stimulate the real estate market. For Hyman, it was not so much the direct investment of public money in this sector that produced the most significant results, but rather the government's capacity to mobilize private capital in preparation for community projects (via the Federal Housing Administration and promoting access to property). Similarly, the historian endeavours to show that American

⁴ Installment sales are a type of lending in which the buyer, after making an initial down payment to the seller, can begin using the goods (a car, for example), which he then repays in several installments over a specified period. The goods are not owned by the buyer until all the repayments have been made. In the event that payments cease, the asset can be recovered by the seller.

banks, which had previously remained on the fringes of any activity involving personal loans (with the notable exception of the National City Bank), began to engage in these activities as soon as the government agreed to guarantee this type of loan. The banks responded positively to this incentive insofar as they did not have any other investment opportunities (companies scarcely borrowed in the 1930s). In the two chapters he devotes to the New Deal, the historian states his theory most clearly, according to which the interaction between the government and the market is one of the keys to explaining the increase in lending in twentieth-century America.

The rest is history: debt spread progressively to the middle and working classes in the 1950s and 1960s, particularly through revolving credit,⁵ which was developed on a major scale by department stores in the postwar years, as were credit cards. The interest for salespeople in promoting these lending methods was clear: they stimulated household consumption and guaranteed customer loyalty at a time when suburban areas were expanding and the middle classes were opening up. However, Hyman insists on the fact that the origins of revolving credit are more complex than they might seem. They lie in the war years, when the government tried to limit lending as a way of combating inflation. While installment sales were strictly controlled, department stores rushed to take advantage of legislative loopholes and thereby develop new practices, thus giving rise to revolving credit, a sort of hybridization between interest paid on installment lending and the flexibility of 'open book credit'. In any case, this major change in housing and lifestyle helped to make access to credit a means by which to move up the social ladder, or at the very least a useful tool for hiding the wealth gap that persisted in American society: "Many in the postwar United States achieved a material prosperity that, in debt's absence, they could not have attained" (p. 132).

Excluded from Credit

Access to credit was nonetheless far from being open to all during this period: Hyman devotes one of his most interesting chapters to those excluded from credit, their mobilization and the changes this brought about in the financial industry in the 1970s.

⁵ Unlike installment sales, revolving credit was not linked to a particular asset. The borrower had a personal account which he could use to pay for purchases, using a credit card, in a store or network of stores. The credit was renewed when the buyer repaid the amounts he owed. This arrangement was more flexible but also more costly for consumers, who could be exposed to high interest rates if they fell behind with their repayments.

Indeed, in the 1950s the ‘citizen-borrower’ was most likely a white, married man living in the suburbs. In comparison, African Americans, who mostly lived in the cities, had little chance of borrowing unless at loan shark rates. A famous survey carried out in 1963 by the sociologist David Caplovitz showed that poor people could acquire goods of lower quality at higher prices.⁶ Without access to credit instruments (there were very few banks in the ghettos), black consumers were forced to get supplies in their neighbourhood stores, which could charge high prices without having to worry about competition. In 1950s and 1960s America, the poor paid more because they were largely excluded from the lending market that would have allowed them to purchase supplies in the suburban department stores, which were flourishing. Hyman suggests that the violence of the riots that shook the black neighbourhoods in April 1968, and which often targeted local stores, can partly be explained by the resentment that African Americans felt toward white storeowners who made them pay a high price for their exclusion from the consumer society, and usually refused to employ them. The looting of stores would therefore have served as an outlet for those left behind in the American dream (an interpretation that could also be applied to the riots that erupted in the United Kingdom in the summer of 2011). Confronted by the ghetto uprisings, social reformers and political leaders deliberated between two solutions:⁷ either to provide incentives for African American storekeepers in towns, as a way of alleviating the tension between retailers and consumers; or to promote universal access to credit instruments, as an economic equivalent to the struggle for citizenship in the 1960s. Access to credit, education and healthcare were therefore intended to enable black Americans to become full citizens.

The will to facilitate credit access for the black communities would certainly not have come about if another discriminated group – middle and upper class women – had not campaigned and lobbied (through the National Organization for Women) to have discriminatory barriers lifted, although they of course had different motives. Married women had great difficulty borrowing money and had to take out credit cards in their husband’s name, no matter how reliable or solvent the spouses were. More seriously, single, divorced or widowed women found the borrowing situation to be extremely complicated, given that they had little or no credit histories on which lenders could base evaluations of their creditworthiness. In 1974, Congress adopted the Equal Credit Opportunity Act, which strove

⁶ David Caplovitz, *The Poor Pay More*, New York, The Free Press, 1963.

⁷ More broadly, on the subject of the struggle against poverty, see Romain Huret’s book *La Fin de la pauvreté. Les experts sociaux en guerre contre la pauvreté aux États-Unis, 1945-1974*, Paris, Éditions de l’EHESS, 2008, reviewed on *La Vie des Idées*: <http://www.laviedesidees.fr/Les-experts-de-la-pauvrete-aux.html>

to forbid lenders to refuse credit on the grounds of sex. These measures also benefited the black populations (the field of application for the 1974 law was extended to discrimination on the grounds of race, religion or age in 1976), although the feminist campaigners' initial objective had not necessarily been to promote credit access for all, the poor included, but rather to ensure that a well-off woman could no longer be refused a loan on the grounds of her sex. The 'race' and 'sex' categories interacted, universalizing the right to credit, although the positions they defended were not entirely synchronized.

What had first seemed like a civil victory quickly became an economic godsend: lending institutions, previously suspicious of social groups whom they had considered risky, welcomed these new customers with open arms, offering them loans that were more expensive than usual. The democratization of lending was the major event of the 1970s. Paradoxically, the measures taken to combat economic discrimination encouraged economic players to develop their monitoring techniques: credit bureaus (such as the Retail Credit Company, renamed Equifax in the 1970s) modernized their methods for collecting and processing data on customer solvency. The decision whether or not to give credit depended less on the moral or physical characteristics of potential customers, and now consisted of establishing databases that appealed to the logic of actuarial calculation. In 1969, the Credit Data Corporation had already compiled information on over 27 million people! This 'private model for economic identification', as Gilles Laferté described it in a recent edition of the *Genèses*⁸ publication, gave every American a score that established his or her potential to borrow in order to consume. That information was then sold to pollsters and political strategists who used it to target their communication at specific types ('hockey moms', etc.).

The Mirages of Securitization

The last thirty years of the 20th century, which led up to the current crisis, were based on a paradox: lending practices became widespread and sophisticated to an unprecedented level during the period (the proportion of American households with a credit card rose from one sixth to two thirds between 1970 and 1998), just at the time when the economic model that had underpinned the country's entry into the era of mass consumption was collapsing. Americans were getting further and further into debt, whereas salaries had stagnated and economic and social insecurity took root from the 1970s onwards. In comparison, the

⁸ Gilles Laferté, "L'identification économique", *Genèses*, 2010/2, n° 79, p. 4.

proliferation of lending in the 1950s and 1960s had taken place within a context of job stability and a steady rise in household purchasing power.

If debt rose sharply from the 1970s, it was less through choice than obligation: households had more difficulty repaying loans, which in turn inflated their level of debt. At the same time, the financial industry developed increasingly complex loan offers in order to meet demand, or even to artificially maintain it. Indeed, consumer credit became “an end in itself, as a rapidly expanding profit center” (p. 6). The logic that led to the subprime crisis then became established: lenders tried to attract new customers who, because they lacked financial means and were charged interest for late payments more often than solvent households, were also more ‘profitable’. The perception of risk associated with lending to vulnerable households faded away once it had become widespread practice to use the financial markets: in the mortgage-backed securities game (these appeared at the end of the 1960s), receivables were sold and re-sold as financial products, which now only had a distant link to the real estate loan they were financing. American suburbanites gained access to their property by pledging their loans (at variable, not fixed, rates) against the value of their house: home equity loans were very popular, working well while real estate prices rose. But when households were no longer in a position to repay, and the value of their property collapsed, foreclosures soared while the initial amount loaned was not recovered. The last three decades were marked by an increasing disconnection between borrowers, faced with the challenges of the ‘real economy’, and their creditors, for whom debts had become just another instrument for speculation, at a time when economic inequalities were growing rapidly. Removing the separation between American banks’ deposit operations and investment activities, encouraged by the adoption of the Gramm-Leach-Bliley Act in 1999, finally increased the vulnerability of the entire American banking and financial system to the mirage of subprime lending, and sparked the crisis of 2008.

While it sometimes makes for arduous reading, Louis Hyman’s book offers an interpretation of the subprime crisis that is certainly less sensationalist than many other recent books, but which rightly highlights the deep-rooted historical reasons behind the collapse of the real estate bubble. In hindsight, the American prosperity of the 1990s seems to have been sustained by the use of credit and risk distribution. The conclusion to this historical enquiry is all the more damning: coming out of the crisis will be even more challenging given that it has

exposed one of the mainsprings of the “American” dream since the 1950s. More broadly, *Debtor Nation* provides a stimulating reflection on the interaction between market and government, a characteristic of American capitalism, although one might regret that the author often takes an institutional approach to financial innovation without truly finding inspiration in research carried out in the field of sociology and economic ethnography on the use of credit among the working classes or on the construction of the categories implemented by public and private institutions.⁹ Despite appearances, it is indeed the American government that, several times over the course of the 20th century, laid the foundations for an economy of debt, which banks and traders carried forward in directions and proportions that were not always anticipated. In the end, Hyman defends the idea that government and market are not opposed, with the government’s role consisting in guiding market mechanisms in the direction of social interest by bringing public interest and capitalist profit as close together as possible, as the Federal government did by promoting real estate loans during the New Deal. The recent transformation of the private debt crisis into a public debt crisis nevertheless proves that the weight of the markets has increased radically over the past few months, and that the power balance between public authority and financial players has become dangerously imbalanced: this is the next chapter – one that remains to be written – of a story that continues to place debt at the heart of contemporary concerns.

Further reading:

- The website for Louis Hyman’s book *Debtor Nation*: <http://www.louishyman.com/bio>
- Three special editions of journals published recently on the subject of consumer credit:
 - “L’identification économique”, under the editorship of Gilles Laferté, in *Genèses. Histoire et sciences sociales*, n° 2, 2010: <http://www.cairn.info/revue-geneses-2010-2.htm>
 - “Vivre et faire vivre à crédit”, report published in the journal *Sociétés contemporaines* in 2009: <http://www.cairn.info/revue-societes-contemporaines-2009-4.htm>
 - “Consommer à crédit en Europe au XX^e siècle”, report published in the journal *Entreprises et histoire* in 2010 : <http://www.cairn.info/revue-entreprises-et-histoire-2010-2.htm>

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⁹ On *Books & Ideas*, see, for example, Jeanne Lazarus’s article on the sociology of Viviana Zelizer: <http://www.booksandideas.net/The-family-is-priceless.html>