¶Should we encourage installment buying?

BUY AS YOU GO

THERE has been, it seems, a good deal of wringing of hands of late about the poor old well-known human being, who is always getting into trouble. The evil is the installment salesman, and he is at the very front door with his bait and hook and his dotted lines.

Mr. Roger Babson, the statistician, has actually worked up a substitute for installment buying: It is very ingenious, a sort of scheme to buy on the installment plan for cash. All you have to do is to skip one purchase. Instead of buying a watch and paying for ten months, you save the same amount for ten months and then buy the watch. Then you save for twelve months to buy a car, if you want a car, and so on. You will be putting aside monthly payments just the same, but into a bank instead of into a finance company. You will buy for cash instead of on time and get cash prices and avoid interest. And you will be able to sleep o' nights. It is as simple as that. But it overlooks some practical considerations. If you delay ten months in buying watch, you may lose the lady friend for whom you want to buy it. While you are saving up to buy the refrigerator, you are paying the iceman. And if you save up for twenty years to buy a house, you will also be paying the landlord.

It has another drawback. People won't do it. And still another one—for, if I know my economics, Mr. Babson, who thus comes out for cash as against credit, is preparing to give his well-beloved capitalist system the greatest kick-in-the-pants of its history.

But first a brief glance at what this installment business means in dollars and cents. In 1929, time sales in the United States equalled $6,500,000,000. In 1936 it was $4,500,000,000. In 1937 it was $5,000,000,000—12.2 per cent of total retail sales. Today about 60 per cent of all automobile sales are on terms, 40 per cent of farm machinery, 25 per cent of all jewelry, and probably 75 per cent of electrical appliances.

Of interest is the fact that all this growth has been made possible by the development of instruments for extending credit. In this case it is the finance company. Its business is to finance the sale of dealers. It does not deal directly with the customer. The finance companies handle probably 60 per cent of all installment sales.

The simple truth about all this is that this is a very practical world, and when a gentleman sets out to sell his wares on the installment credit plan, he is confronted with three problems. First, the effect this enticing device will have upon his own business; second, the effect upon the customer; and third, the effect upon society.

First, the businessman. The problem for him is—will it bring him more business and can he operate with sufficiently small losses? On these points there is really very little room for argument. The historical fact is that installment credit has been a major factor in building up one enterprise after another for many years. Men got rich out of installment selling. They still do.

Of course, it is not difficult to find instances of foolish merchants who violated the laws of sound credit and landed on the rocks. But losses on installment sales are small, ranging all the way from less than half a per cent for the automobile companies to 5.4 per cent for jewelry. Hence, there is no reason for a business landing in the bone yard by this means. There are two methods of keeping losses small. Either the merchant must be cautious of his risks when he makes the sale or he must adopt a system of merciless brutality when he makes his collections. Many businesses have been profoundly injured by the latter policy.

There is scarcely any kind of merchandise which is not sold on the installment plan now. And it is not always true that, because one man gets the consumer's dollar, no one else can get that same dollar.

The automobile business was, beyond dispute, expanded to its present giant proportions through the operation of the installment-payment method of selling. Because it was thus expanded, it created that vast tangle of industries in and part of the automobile industry and resulted in putting a great army of people to work. I once estimated the number of jobs created directly by the automobile. It added up to the staggering total of four million—four million people who drew money incomes from the automobile industry and who could use those incomes to buy not only more automobiles but also suits and hats and groceries and innumerable items in no way involved in the installment business.

However, here enters again my solemn-visaged economic evangelist from the Bible Belt to warn us that "you cannot build a sound economy upon discounting the future." If there is anything certain, it is that you cannot make this capitalist economy of ours work unless you do discount the future, and rather heavily. As a matter of fact, one reason why it is not working now is because we have pretty nearly quit discounting the future. We have left it to the Government to discount the future.

As a matter of fact, installment credit is in fact a form of short-term credit which is actually least harmful. All credit is at the same time both stimulating and depressive, both helpful and harmful. When it is being granted, it is called credit, and it boosts. When it has been granted, it is called debt, and is burdensome. It is a device for spending the income of the future. Having spent that income once, it can never be spent again. Therefore, installment selling has this drawback, that it is helpful when in good times it is stimulating sales and pushing business ahead. It is burdensome when a depression comes and an enormous volume of installment accounts are outstanding.

In the case of installment selling, however, the debt burden it leaves in its wake is probably the smallest of all the debt weights. Here are the facts.

At the beginning of 1936, the outstanding debt of the United States—public and private—was 118 billion dollars. Now see how this came about.

At the beginning of 1936 outstanding debts for installment sales were over a *billion and a half dollars.* But there were *twenty billions* in bank loans, and the total debt of the nation was 118 billion dollars. If debt is a burden, it will be seen that the installment share of this burden was less than 2 per cent. And it was not that 2 per cent which did the damage. It was the vast burden of long-term debt. What is more, while installment sales fell off heavily, they apparently never dropped to a figure lower than the outstanding installment debt.

Another fallacious criticism of installment selling is that it curtails savings. Savings is a sort of Jekyll-and-Hyde economic character—with a benignant and malignant countenance. If one unit in the community saves, that's good for him. But if everybody saves, the sum of all this saving would mean ruin. When savings exceed investment, the depression has begun.

Of course, it is an excellent rule to pay cash for things. One can buy cheaper, live free of the importunities of the clerk who is paid to write harrying letters and the collector who often has the social graces of a bouncer.

But it is not all as simple as that.

Take this proposition that installment buying raises the price. That is subject to two important modifications. First, the purchase may effect savings in some other directions as set off against the price. Take, for instance, the purchase of an icebox. The woman confronted with the problem of buying the refrigerator now, on time, or saving for thirty months and paying cash, must include in the calculation the cost of ice from the iceman while she is saving. Calculate it and you will find that, once she has decided to buy the icebox, it is cheaper to buy at once, even though there is an interest charge.

There are, however, types of goods which in the trade are called "soft" and which belong in the category of current consumables—such as clothing. The average buyer is a dupe to buy clothes on the installment plan. That is an excellent method of cutting down your effective income. For such materials are always a nest of hidden prices because of the cost of installment selling and collection and losses. Many a workman will go on strike, risking starvation and life for a five-per-cent wage raise, and then cut down his income by ten or twenty per cent through ill-advised purchase of clothes, jewelry, and other things on the installment plan.—*John T. Flynn, condensed from Scribner's.*

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Journalists in Power

THROUGHOUT the world journalists have risen to power. Lenin and Trotzky published their small revolutionary papers in Russia and abroad; Stalin edited *Pravda* in Petrograd during the Kerensky regime; Mussolini was a big shot in Socialist journalism in Italy until the French government paid him to edit a pro-Ally paper, and in whose presses Fascism began its advance. Kemal Ataturk once ran a rebel sheet. Hitler had his *Beobachter.* Every French premier has a personal organ, for the press of the Continent is an open weapon with which men and parties fight for power.

In America the ruling powers prefer to let the press maintain the aspect of impartiality and independence so long as wealth, the profit motive and the status quo are never endangered. In Europe the editors and publishers are a part of the political machinery.—*George Seldes in "Lords of the Press."*