It is a widely held opinion that the future trend in employment work is toward the recognition of employment service as an expanding *public* function and to its extension as a necessary correlary of unemployment insurance schemes. Mr. Rosen has outlined a very comprehensive plan for a Jewish community, including vocational guidance, self-support plans, sheltered employment, etc. In the light of the previous observations as to the fundamental nature of the problems and their larger implications, and the fact that recent Federal and State legislation has given great impetus to the public employment service—a smaller, more limited plan would seem to be more advisable. Private employment bureaus should emphasize the experimental character of their work and their function of supplementation of the work of public agencies only. Their programs, in communities where they are deemed necessary, should be worked out in very close co-operation with public agencies; in some localities this would mean not maintaining their own identity, but functioning as special departments of the public employment service.

Credit Facilities for Marginal Jewish Groups

By Rolf Nugent

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TO ALL entrepreneurs, credit is an important tool. But to the entrepreneur with limited capital, credit is a vital necessity. Hence the importance of credit facilities for large numbers of Jews who by choice or by necessity have become small business men.

It would be very pleasant to me to be able to suggest a clear-cut program for making credit available to marginal groups. But the problem is far from simple. It has troubled lawmakers and civic leaders from the time of Moses. Even today it would be difficult to find a single issue of the Congressional Record during the current session of Congress which does not refer to a proposal for making credit available to creditless groups. Credit inequality is inherent in a competitive capitalistic economy. As long as this system continues, the problem will continue.

While the problem cannot be solved, it can be ameliorated. I shall try to examine existing credit agencies to evaluate their usefulness and to suggest the direction which a program of amelioration might take.

The most logical and convenient source of business credit is the commercial bank. But even at the peak of the post-war bank credit inflation only a comparatively limited group of petty business men were eligible to bank credit, and many of these found it necessary to have recourse to supplementary credit facilities. This situation has been aggravated by five years of frantic liquidation during which all but the soundest customers have been generally removed from the usual credit services of banks.

Although this condition is undoubtedly affected by the hysteria of an unnerved profession, there is little hope that bank credit will be extended in the future to lower strata of applicants than those served in 1928 and 1929. An essential technique of the banking business is the selection of credit risks. The gradual use of cost accounting methods by banks has created lines of cleavage between profitable and unprofitable accounts which may be expected to eliminate more and more marginal credit customers. Because social pressure offers some resistance to this tendency as far as well-assimilated members of the community are concerned, customers from racial minority groups are all the more subject to elimination.

Eloquent testimony of the trend away from the marginal borrower is to be found in the rapid development of supplementary credit agencies: the industrial bank or banking company, the credit union, and the axia (or achtzia). These institutions have appeared within the last twenty-five years and their growth has been phenomenal. The first industrial bank was organized in Norfolk, Virginia, in 1910. This institution relied upon endorsed notes as security, required repayment by instalments, and charged higher interest rates than commercial banks. Today there are several hundred similar institutions with outstanding loans approximating $200,000,000. Most of these are incorporated under special enabling acts and are supervised by State banking departments.

The year 1910 also marks the approximate beginning of credit union development in this country. The first credit union law was enacted in that year in Massachusetts. Today there are some 2,000 credit unions operating under special enabling legislation in thirty-eight States. The credit union also lends on endorsed notes but is co-operative, raising funds by the sale of shares to members and making loans only to members.

Both the industrial bank and the credit union were designed primarily for lending to employes for consumptive purposes, but small entrepreneurs soon found them useful. The Jewish family was willing to support the credit of its entrepreneur members and thus provided the security demanded by these institutions.

The axia, like the credit union, is co-operative, lends on endorsed notes, and requires instalment repayments, but lacks the enabling legislation or public supervision which identify the credit union. Because axias are informal, if not illegal, the extent of their development cannot be accurately measured, but it was obvious that hundreds were operating in all principal cities in 1929. They were essentially agencies for financing the small Jewish entrepreneur by the accumulation of funds from other members of the Jewish community.

How adequate have these supplementary credit agencies been? The principal difficulty which entrepreneurs found in the service of industrial banks was the inflexibility of their standards of credit granting and repayment. Their operation required a routine which could not be adjusted readily to the needs of small business men and their cost was high.

Axias, on the other hand, were very personal institutions. They were usually small and, lacking any of the repressions of public supervision, they could adjust their service readily to borrowers' needs. However advantageous this freedom may have been as far as the borrower was concerned, it had rather frightful consequences to investors. Accounting errors and defalcations by officers sent some into liquidation, and favoritism or laxity in their loan and collection policies destroyed large numbers of others when the business depression came upon them. Once in liquidation, an axia is usually a sorry spectacle. Interest in the institution dies rapidly, loans otherwise collectible become bad, and lawsuits multiply until the bones are stripped bare by lawyers and accountants. There is little left today of the tremendous development of these institutions. New ones will undoubtedly spring up from the ashes in some instances, but, without greater security for the investor, it seems improbable that these agencies will again become an important source of credit for marginal entrepreneurs.

Credit unions would appear to be free from these handicaps. They can lend more cheaply than either the axia or the industrial bank. They are equipped to give personal consideration to the needs of members and to modify their technique to meet individual circumstances, and, at the same time, they are under strict supervision of State banking departments. Because of these advantages, many credit unions were organized primarily by small Jewish business men in order to secure credit for their businesses. Some of these have been very successful. But many have been liquidated at a considerable loss to shareholders. Although the number of credit unions has expanded continuously since 1910, the increase has come from employe groups. There are fewer open-membership (businessmen's) credit unions today than there were in 1927.

There are definite reasons for the decline in entrepreneur credit unions. In Europe, where co-operative savings and loan societies have had such a remarkable record of usefulness to the small entrepreneur, membership is usually confined to a village or small town where knowledge concerning prospective borrowers is intimate and where social pressure is a powerful collection weapon. Most business-men's credit unions began within groups closely associated by residence, friendship, or other interests. In metropolitan areas, however, two forces tended to destroy this homogeneity. First, supervision, by requiring efficient and businesslike methods, and officers and employes, through pride and ambition, tended to force expansion beyond the original group. Second, the homogeneity of the group was continually weakened by the centrifugal forces of metropolitan life. In New York City, for instance, members of individual credit unions gradually dispersed to the five boroughs and even to Westchester and New Jersey. The credit union knew less and less about its applicants for loans, membership meetings were poorly attended, and it was difficult to get responsible people to serve as officers. In many cases either a philanthropic impulse or pure self-interest (both of which are dangerous to a credit union) were substituted for the co-operative spirit that had motivated the original organization.

This is the fundamental problem of the open-membership credit union. Upon its solution will depend the future usefulness of the credit union as a source of credit for marginal groups. The districting of cities for credit union organization has been suggested. Some recent credit unions have been limited to the membership of synagogues or fraternal societies. Perhaps in some such way the original homogeneity of a credit union and the advantages that go with it may be preserved. If so, the credit union will have an important part in a remedial program.

One recent event of importance to the problem of credit for marginal Jewish groups is the development of personal loan departments of commercial banks. The technique of the personal loan department resembles that of the industrial bank and these institutions, therefore, have the same limitation upon their usefulness to the small entrepreneur. The first personal loan department was organized by a Louisville bank in 1925. Since then several hundred banks have followed this lead. A few have very large specialized departments, notably the National City Bank of New York, whose outstanding loans have approximated $25,000,000 for several years.

One of the principal characteristics of the personal loan department is the use of a device for obtaining a higher rate of charge. It must be remembered that the usefulness of the industrial bank, the credit union, and the axia to the small entrepreneur results not so much from the peculiar technique of these institutions as from the higher rate of charge. Given a larger margin for expenses and losses, they are able to make loans profitably in smaller sums and on less acceptable security than commercial banks.

Much as we may fear a relaxation of interest limitations, it is, of course, foolhardy to expect that a limitation of interest rates will provide loans which cannot be made profitably at that rate. The availability of credit to the small entrepreneur is more important than the rate of charge. His need is for a convenient and decent source of credit at the lowest rate consistent with a fair profit to the lender. Perhaps the experience with supplementary credit agencies has forced a breach in the public fixation that 6 per cent. a year is a fair charge for use of money regardless of the conditions of the loan contract. There is considerable evidence that both the industrial bank and the personal loan department are straining at the curbs on their technique which are imposed by statutory and judicial law. There is also evidence of a greater willingness of lawmakers to face the problem of credit for marginal groups. With our banking system and the legislation which controls it in rapid flux, we may quickly find ourselves with a new technique of lending to small entrepreneurs. It seems likely that a relaxation in the legislative restrictions, if granted, would be given to industrial banks and to specialized personal loan departments rather than to the entire banking system.

Perhaps such a development must be accompanied by a change in the motivation of the banking business. It may be necessary to combine the technique of the commercial bank with the democracy of the credit union. Those who are thinking in these terms must be eternally grateful to the example set by the bank over which Mr. Held presides. There can be no question of its adherence both to a social purpose and to conservative banking practice. Its record belies any claim that good banking technique and a social point of view are mutually exclusive.

DISCUSSION

By William Hirsch

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GREAT credit must be given Mr. Nugent for the preparation of the paper on this subject, particularly when the Jew as a racial group is so vitally concerned at this time in consumers' credits. The great problem that the Jew now has under our present condition is to discover where the marginal group exists. At one time the marginal group was the average worker. Later we had to add the middleman. Today a member of the marginal group may be the man whose subscription to his local Federation was in five figures. The very man who was a large supporter of philanthropic agencies in his community and who was among the founders of credit granting associations, is today a borrower. The only time the middleman becomes extinct is when he is forced by circumstances, through inability to be a *mittelmensch,* back into the workers' ranks, or because of his great ability, or for some other reason, he drifts into the upper brackets in business. The average small trader or middleman is endowed with the resiliency and bouncing qualities of a rubber ball—out of business today and back again tomorrow. It is his only way of making a living and he today, and probably more so in the future, is the man who will require constant credit sources to support his business enterprises.

The average worker is or has been an unemployed person in the past four and a half years and for a while prior to that was only partly employed. In seasonal occupations he was never more than partially employed. To him credit at the present time is only a curse. It lifts him temporarily out of the County Relief food-order group until his credit cash is exhausted and he is then forced back on the food order again. The lamentable part of it is that it takes from four to six weeks before he can again become a participant in county, state or government relief and then he and his family must merely exist on the very little such agencies can provide for them.

The largest personal finance companies operating under the Small Loans' Act, charging the lawful rate of interest averaging 42 per cent. per annum, have in the past year rejected 70 per cent of their applications for loans. The clients were financially too much impoverished to be benefited by loans and there appeared to be no possibility for the repayment of such loans. One such personal finance company in 1933 wrote off $3,000,000 in uncollectible loans.

Bill purchasing agencies who financed jobbers and wholesalers by buying their invoices, have steadily been going out of business. The interest rates charged by them ranged from 15 per cent. to any interest charge one can imagine, even going into telephone figures. Yet they have gone to the wall.

In the past four years there has been a steady decline in the volume of business done by remedial loan agencies throughout the country and in cities where so-called co-operatives existed, such organizations have with few exceptions closed their doors. Personal finance companies (lenders) have suffered a sharp decrease in their loans.

Credit unions still exist, but the credit union does not serve the purpose in its entirety. One must be a depositor as well as a borrower and unless credit unions have borrowers who obtain loans at 10 per cent. per annum, which when compounded through weekly or monthly repayment plans runs up to 20 per cent. per annum, they cannot pay their shareholders 7 per cent. dividend. The result is that the shareholder is the borrower whether or not the credit facility is a necessity. Besides, it is sectional or occupational in nature and the shareholder as a rule remains a shareholder only as long as he is connected with a given shop or place of employment, or resides in a given locality. Any change of employment or residence changes the status of the depositor.

Credit without service is not credit. Helping the marginal man who wants credit must have a much more useful purpose than merely the granting of loans.

That there will be a great need for additional credit service in the future is no longer questionable. All kinds of fences will have to be mended when business takes a normal course, or if our economic status becomes firmly defined and established again. The small trader will require additional cash facility for business purposes. Professional men and women who have been living on borrowed money for many years, who could not permit themselves to accept food orders, will have to return the money in the future. The worker in the ranks will also find himself overwhelmed with demand for moneys borrowed and since he will not be living in an era of high salaries, he will have to, so to speak, put his debts into one basket, the credit association, which he will repay in small weekly installments and from which he will obtain money to settle all of his accounts at once.

It is vitally important that preparations be made at once for the development of organizations or enlargement of existing organization to meet the demand that will of necessity exist in a short time. The so-called marginal group cannot possibly utilize the services of the commercial lender without again impoverishing itself because of the interests rates attached to such loans. The unequal trend of rise in costs of living, with the disproportionate rise in income that does not compare with the costs, will place the companies charging the lawful rates at a disadvantage. The remedial loan agency which offers such credit facility for this very class must be created and have to assume the responsibility.

We must not forget the large group we will have to assume responsibility for, the former employer of men and women who will have to start all over again. They are among the declassed at this time, a thoroughly unprotected class without trade or occupation, who enjoyed more comfort than the middle-class shopkeeper and whose outlook on life is probably more warped than the smaller earning groups who are also declassed—a group that will practically have to be taught how to walk again. Our own immediate experience indicates that this will not be a small group for remedial loan agencies. They belong to the group that enjoyed a line of credit at the banks, who were able to manipulate funds which they found it possible to borrow and for whom today the banks do not function. Their credit was established at banks and advanced to them without security other than their own signatures. Without such facilities they became and still are helpless. Large numbers of them will emerge if banking facilities are established for them, but the remedial loan associations will be the bankers for some time after a beginning is found for them.