

Our Changing Economy

Thrift's Subversive Where Credit's King

By Philip Stoddard Brown

YEARs ago, a young woman who lived in Sheridan, Wyo. received a letter telling her that because of her prominence in the community she had been selected as distributor of a certain encyclopedia. She had only to sign the enclosed



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card and she would receive a beautifully bound six-volume set, free of charge. This seemed like a good thing, so she signed.

Never one to concern herself about details, especially those in fine print, she was unaware for some time that she had committed herself to buy a supplement each year, so long as this earth is inhabited. This she considered unreasonable and so informed the publisher. But this wasn't the end. Letters continued to come, which she filed efficiently in a round receptacle on the floor beside her desk.

Husband's Riposte

One day a registered letter arrived that proved to be a sharp homily on credit. It explained how credit, like one's good name, could be lost overnight and not easily regained. The letter implied that time was short for this woman to avert so great a loss. Her husband, now a prominent lawyer in Washington, offered to reply to this letter, which he did as follows:

Gentlemen, I have your letter of blank date, to my wife. I wish to inform you that her credit in Sheridan is a matter that I have in hand. However, my wife has credit also in New York, Boston, Philadelphia, Chicago and San Francisco. If there is anything you can do about this, as you imply in your letter, I should welcome your assistance. I await your reply. . . . Your obedient servant, etc.

I was reminded of this story last week by an event that is really newsworthy in this day of credit cards and charge accounts. Another young woman, a recent bride of this city, elatedly showed her husband a dress she had bought that day. He admired it, but wondered how she had been able to pay for it.

When she explained how easy it had been to open a charge account, the husband asserted himself. He reminded her how financial worries had broken up her parents' home. Then he laid down the law: "No more credit; no buying, except for cash, in this family." The wife, in tears, promised to return the dress.

This is old-fashioned behavior. For years, I haven't heard of anyone waiting to buy a dress or a car until enough had been saved to pay the entire cost. Moreover, I don't think it's possible for a young couple to live on a cash basis. But this young man, I am told, has Scottish forebears and a strong character, so I intend to follow the career of this young couple.

Cash Is Gauche

Credit comes easy these days. When I reach for my pocketbook, my bookseller waves me on my way, saying he'll just put it on the books. At clothing stores, it seems gauche to hand over raw money.

Last week, J. Gordon Dakins, executive vice president of the National Retail Merchants Association, speaking at the Board of Trade's Outlook Conference, explained how credit is one of the best devices a merchant has for increasing sales on a profitable basis. "Doing business without credit," he said, "is like winking at a girl in the dark."

Well, I agree about the futility of winking in the dark, but I was surprised to learn about the futility of doing business for cash, so I made some inquiries.

Last year, 43 per cent of department-store sales were "charged" and another 14 per cent were "on time," that is, paid for in installments. About three out of four new cars were sold "on time." At a few Washington restaurants, about a third of all meals were charged.

Dakins is right too when he says selling on credit can be profitable. The "finance reserve," or kickback, of finance companies often equals or exceeds the net profit of new-car dealers on all their operations, and the finance companies themselves do all right. In fact, Ford Motor Co. has decided to get back in this business, rather than trying to earn money just by making cars. (The stock of one large finance company has risen from \$7 to \$84 a share in recent years.)

However, some merchants can't charge for the credit they extend and don't get any kickback. That's the way the cookie crumbles for restaurants. The proprietor gets back only 93 cents per dollar of billings and may wait 45 days to get that. Also, there's a good deal of added expense in typing vouchers in the form that the Diners' Club and other collection agencies require. So, to make up for this loss of 10 cents or so per dollar, as more and more people eat "on credit," the proprietor must raise prices. Those who pay cash help, of course, to pay the expenses of collecting from those who don't.

Consumer Manifesto

This annoys a few stubborn cash buyers. Also, some curmudgeons, of the honorable type, are disturbed by the sight of their friends signing for their luncheons and by the thought that maybe those bills get taken as deductions on income tax returns, just because they yield receipts.

At considerable personal risk, I urge cash buyers of the world to unite; you've nothing to lose but your change. . . . Yet, I have a hunch there will never be a revolution. Cash buyers won't unite; they'll just fade away.

Today, young brides—and husbands too—know nothing of the precepts of Poor Richard. The heroes of today are those who buy. And how can a young couple buy a morale-lifting dress, a dishwasher or a new car, except on credit?

Arthur Burns, former chairman of the Council of Economic Advisers, said in a recent speech: "If there were any heroes during the recent recession, that distinction belongs to ordinary consumers, who went about their affairs without fussing and maintained a high rate of spending without fanfare." . . . I think by "consumers," he means "people."

Not many years ago, this sort of talk would have branded Arthur Burns as un-American. Thrift was the American way of life. Bankers hadn't become Janus-headed: at one window, inviting people to save; at another, offering to lend them money to buy a car or pay their income tax. But, today . . . well, I worry about that young husband who forced his wife to take back that lovely dress.