INVESTMENTS · AND · FINANCE

MORE LIGHT ON INSTALMENT SELLING

PAYING FOR THINGS ON "EASY" TERMS has become such a conspicuous element in American life, and so large a factor in our prosperity, that the economists have been doing a great deal of worrying about it. Recently there have been several particularly exhaustive studies of instalment selling which compel notice. A business man and student of economics writing in *The Yale Review* condemns the American development of partial payment buying as an economic sin for which retribution will be "automatic and inevitable." On the other hand, a University of Pennsylvania economist, after long and careful study, comes to the opinion that the new system is here to stay and performs a useful and important function in our economic structure. And a great Western newspaper has been carrying on an investigation for six months which leads it to the conclusion that instalment buying is, after all, economically sound. All of these reports have won editorial notice and comment pro and con.

If we turn first to the survey made by the Portland *Oregonian*, which that paper declares to be the most comprehensive and authoritative ever taken on the subject, we find many dissenting views recorded, with the more favorable predominating. Questionnaires were sent out to bankers in all the important cities of the country to be redistributed to leaders in various industries and trades. The answers to the questions are compiled as follows by *The Oregonian:*

	Yes	*No*
1. Directly or indirectly increased production and made for general business prosperity?	1,080	131
2. Come to stay?	1,200	62
3. Had a tendency to level the summer slump in buying?	804	353
4. Affected the amount of savings accounts? (An ambiguously worded question, to which the answer has little significance, as it is not specific as to whether the effect is good or bad. Bankers contend it has had an excellent effect on saving.)	674	555
5. Led to a dangerous credit situation?	674	622
6. Materially increased the proportion of purchases of luxuries?	1,238	116
7. Had the psychological effect of inducing purchasers to plunge without sufficient realization of eventual payment?	980	266
8. Reduced the amount of money available for investment?	784	450
9. Increased the cost of goods to the consumer?	981	315

From the replies and from other evidence gathered by the Oregon paper the following points are brought out as "safe and sound supplementary conclusions":

Instalment buying of necessities is sound economic practise and far better than the open-account system.

It is a matter of control and can not be considered an evil in itself.

It permits the consumer to benefit by the use of the goods while paying for them.

It causes a family to adopt a budget and may be the inception of future systematic saving.

It stimulates thrift, increases consumption and raises the standard of living.

It is a permanent part of our credit structure and method of distribution.

It increases the activity of men to keep pace with their buying —which is at the basis of prosperity.

It has not undermined the economic structure of the country by undue inflation of credit.

By increasing quantity production, it decreases the cost of goods to the consumer, despite financing charges.

It has contributed more than any other major factor in the rebuilding of business and the general readjustment that has taken place since the war.

It has eliminated class feeling and has made it possible for individuals of moderate incomes to enjoy pleasures and recreations of educational nature.

It is a menace when credit is extended injudiciously, but this same would hold against the open-account system.

It is a sound practise when the following economic principle is used as a guide: The down payment should be great enough to cover selling cost and depreciation up to the time the seller fails to get his first monthly payment, delinquency is definitely established and the merchandise repossest. Time payments should extend no longer than the salable life of the merchandise.

From the replies as classified and digested for *The Oregonian* by the Lumberman's Trust Company Bank of Portland, the following statement of majority opinion is drawn up:

Instalment buying is the backbone of America's prosperity, by leveling out the production curve. It has almost banished unemployment, creating more jobs through the increased production made necessary by the tremendous consumer demand.

It has reduced the average cost of necessities and luxuries through quantity manufacture. It has increased wages, encouraged thrift and ambition, prevented spasmodic business depressions and made it possible for the wage-earner of America to find contentment in the possession of those things which even the rich of other countries seldom can afford.

A minority are said to hold that "instalment buying and selling is a menace, causing the workman to pledge his future and place a mortgage on his earning power which will tend to bring a reckoning day that will shake the credit structure, should hard times develop."

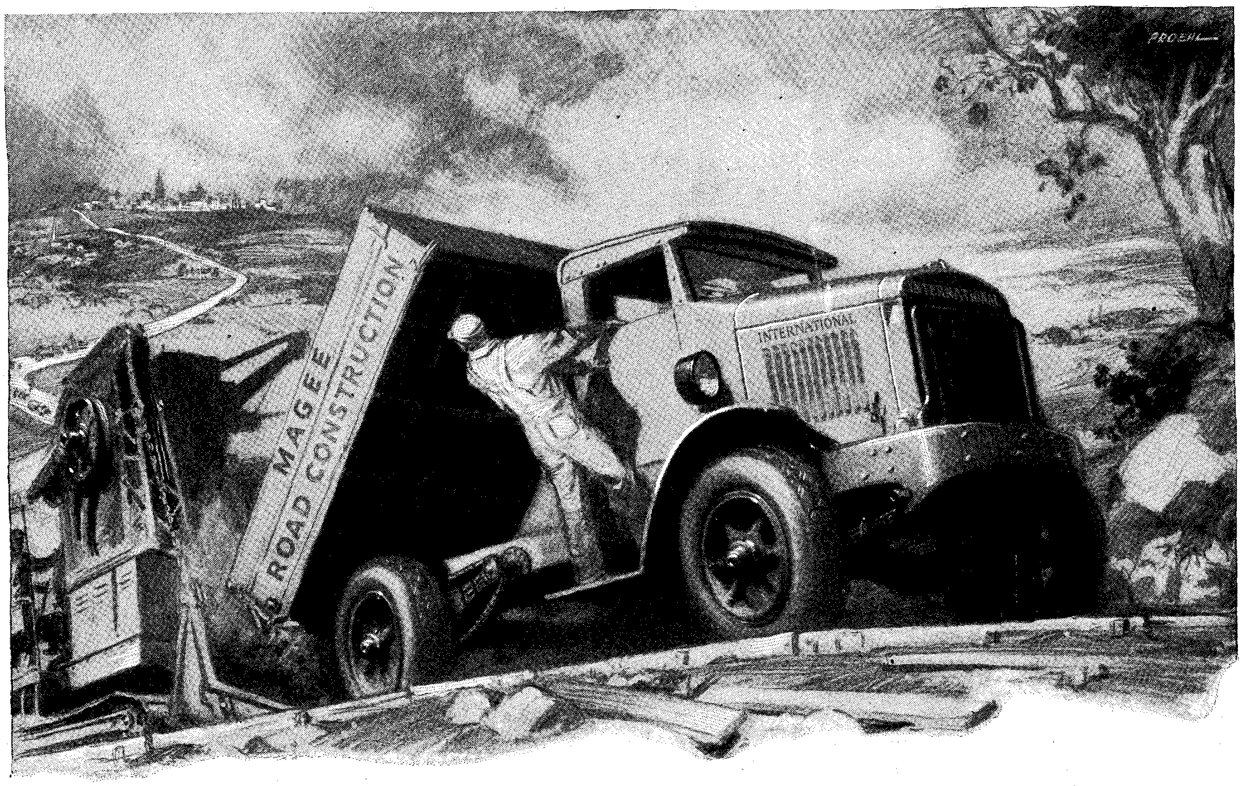
In the cities surveyed it was reported that on the average about 39 per cent. of the workingmen's future wages was mortgaged for deferred-payment purchases. The purposes for which payments were made in these cities were proportionately as follows, we are told: "Homes, 28 per cent.; automobiles, 35 per cent.; clothing, 9 per cent.; jewelry, radios and non-essentials, 10 per cent.; and furniture, washing-machines and essential household equipment, 18 per cent."

The conclusions reached by *The Oregonian* seem to the Chicago *Evening Post* to be fairly representative of the business opinion of the nation. That "the advantages have been held to offset materially the disadvantages" is held to be "fortunate in view of the general belief that instalment buying will be a permanent business factor." But a business authority, *The Commercial and Financial Chronicle* (New York) finds it difficult to argue a healthy state of trade if 39 per cent. of the future wages of workingmen are tied up in instalment payments. It wonders "what part of the 39 per cent. of future wages mortgaged goes into luxuries." And it protests:

On the whole, mortgaging future wages and salaries is not to be commended. Salaries and wages are subject to change through the trends and necessities of trade. They are not fixt but fluid. In a way, then, these mortgages upon the future, fixt by employees, tend to hamper the conduct of business at its source; they tend to an unwritten compulsion upon employers to continue wages under which the mortgages have been issued. It has never been the policy to encourage wage-earners or salaried men to borrow upon their prospects.

It is much better to put savings in a bank until the time when the luxury can be bought and paid for. And it may be added that then in most cases the luxury should be denied and the necessity substituted. Furthermore, a general business energized by the consumption of luxuries is upon an unsound base.

The elaborate study of the "Social and Economic Consequences of Buying on the Instalment Plan," made by Prof. Wilbur C. Plummer of the University of Pennsylvania, and published in *The Annals* of the American Academy of Political and Social Science covers the whole field in a most painstaking manner. Professor Plummer reminds us that about $6,000,000,000 worth, or 15 per cent. of all goods bought at retail, are purchased on the instalment plan. The amount of instalment debt outstanding at a given time is $2,750,000,000. This looks large but



Illustrating the New International Chain-Drive Truck with All-Steel Cab

Making it easy for others to follow

Write us and we will give you the names of contractors who build roads with International Trucks in your own part of the country—such men, for instance, as S. R. Rosoff, New York, who operates 32 Internationals; L. M. Gray of Jacksonville, 18 Internationals; M. O. Weaver of Iowa Falls, 41 Internationals; and Claude Mayhugh of Los Angeles who owns 26 Internationals.

OVER a billion dollars a year for building roads and maintaining them—one of the biggest industries in the country and one of the hardest jobs that motor trucks are given to do.

Over 55,000 miles of hard roads will be constructed in the United States during 1927—think of it—fifteen times across the continent! And where the going is hardest, where roads have never been before, there International Trucks are blazing the trail and paving the way—making it easy for others to follow!

Road reconstruction in old New England, putting a solid footing through the sands of the south, pulling Iowa out of the mud, or tearing away hills in California—it's all in a day's work for International Trucks because that kind of work was built into them at the factory.

The Harvester Company has been building good trucks for more than twenty-two years, and they are building better trucks now than ever.

The International line includes the Special Delivery for loads up to ¾ ton, 4 and 6-cylinder Speed Trucks of 1¼-ton and 1½-ton sizes, Heavy-Duty Trucks ranging from 1½-ton to 5-ton sizes, Motor Coaches, and McCormick-Deering Industrial Tractors. Served by 125 Company-owned branches in the United States. Write for literature.

INTERNATIONAL HARVESTER COMPANY
OF AMERICA
606 SO. MICHIGAN AVE. (INCORPORATED) CHICAGO, ILL.

INTERNATIONAL
HARVESTER
TRUCKS
COMPANY

W. W. Magee of St. Paul uses 42 Internationals, making records building better roads through Minnesota.

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is not so great in proportion to the total amount of outstanding credit in the country, which exceeds $120,000,000,000. About half of the instalment debt is for automobiles. It has been estimated that 75 per cent. of all automobiles, 85 or 90 per cent. of all furniture, 80 per cent. of all phonographs, 75 per cent. of washing-machines, 65 per cent. of vacuum cleaners, 25 per cent. of all jewelry, and the greater part of all pianos, sewing-machines, radios, and electric refrigerators, are sold by partial payment. About $140,000,000 worth of clothing is sold per annum on this plan.

The tremendous increase in instalment-selling in the last six or seven years is attributed by Dr. Plummer chiefly to stiffening competition, modern advertising and high-pressure salesmanship, increased incomes of the working classes, and an ability of our producers to create beyond the ability of our consumers to purchase on a cash basis. The argument that people are going into debt for luxuries is met by this writer with the assertion that labor-saving devices in the home really release productive effort for other purposes. He also denies that instalment-buying necessarily takes wealth out of productive channels, arguing that savings accounts and capital are turned into such channels while various goods are bought with current income. After all, he says, it is absolutely impossible to draw the line between necessities and luxuries, since it is a matter of individual point of view. The tremendous rise of finance companies to take care of instalment credits has added a new element to our banking system. Their services, of course, are highly paid for, and the compensation divided between them and the retailers means that "it costs the buyer as much more to buy on the instalment as it would if he borrowed the money at an interest rate of from 11 to 40 per cent. and paid cash."

Dr. Plummer finds it hard to say whether instalment-buying makes people more, or less, thrifty, but statistics show that during the period of intense development of the new system savings have grown, not only absolutely but considered in relation to the rise in prices, on a per capita basis and in proportion to income.

True, a piling up of credits may lead to a period of depression, but Professor Plummer seems to think that instalment-selling alone can not take much of the blame for the next depression, because it is so small a part of our total volume of credit. He points out that commodity prices have been going down rather than up in the last six years, and that the instalment plan by encouraging mass production has actually made automobiles cheaper. So the new system can not be said to have produced price inflation. While instalment-buying, through piling up a huge quantity of unpaid-for goods in addition to unsold stocks, may prolong the next depression, Professor Plummer suggests that new extensions of instalment credit may be just the thing to pull us out of the slump. His study of the effects of the system in the region affected by the anthracite strike of a year ago indicates "that selling on the instalment plan is a sound way of doing business."

After stating various facts he sets down his own personal opinion as follows:

We believe that the instalment 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 instalment 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.

Finally, we turn to the unfavorable article in *The Yale Review* by C. Reinold Noyes, a St. Paul business man and student of economics. He seems to agree with the railroad president who called it "the uneasy payment plan" the other day. After an extended canvass of the subject, Mr. Noyes asserts that the instalment plan is the method of milking dry the now extremely prosperous working class. "The day of reckoning will come sooner or later." According to Mr. Noyes:

From the standpoint of the consumer the disadvantages of financing prosperity on next year's income consist primarily of all the age-old disadvantages of being in debt. From the standpoint of the producer, the fundamental weakness of this practise is its futility.

The partial-payment plan, insists Mr. Noyes, is a "process of exaggerating the peaks and valleys of the business cycle by which a fool and his money are parted for the years to come." He believes that:

When the next period of general depression is upon us, those manufacturers and retailers who have been unduly stimulating their sales by the deferred-payment plan will doubtless find their market flooded with second-hand automobiles and other apparatus of living, "repossest" from delinquent purchasers. At the same time their normal market will have contracted, due to the diminished purchasing power always present in hard times. Finally, the frame of mind of the consuming public will be adverse to going into debt, as it always is when the future is gloomy and uncertain. Each one of these factors operating singly is enough to depress any industry. The simultaneous combination of all three in these specific industries will greatly enhance the normal contraction of business, and the effects will be extremely severe. Perhaps such an experience is the only lesson which will cure these trades of a wholly fallacious and unsound economic policy. And, perhaps, the losses inflicted on the

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purchasers who can not retain their partially paid-for utilities will also exercise a wholesome restraint in the future upon the consuming public.

Since practically all consumers' installment paper is carried by retailers, or is discounted by them with banks or finance corporations "with recourse," any crumbling of this credit structure will immediately involve retailers only. Manufacturers will at first suffer only in respect of a contraction in their markets. Nevertheless, in an effort to maintain their outlets and to sustain their dealer organizations, it is highly probable that many will, in the early stages of a depression, step in with relief measures and so become themselves involved, through advances and guaranties, in a gradually worsening credit situation which will eventually prove their own undoing as well.

Eventually, concludes this writer, the effects of the collapse will become general, "and the economic sins of our intemperate producers and consumers will be visited upon all of us"—"retribution for economic sin is automatic and inevitable."

OUR ELECTRICAL LEADERSHIP

ONE of the reasons for American industrial efficiency is found by the writer of an article in the bulletin published by the Stock Exchange house of Dominick and Dominick in the fact that the United States now produces more electric power than all the rest of the world combined. It is noted that:

While the total production of kilowatt hours in the United States is six times that of Canada, its nearest competitor, the per capita output ranks third. The most extraordinary fact is that Great Britain and Germany are last in the list of great industrial nations.

Comparative figures are given in this table prepared by the London *Economist:*

Country	*Total Output of Electricity (Millions of Units)*	*Output per Head of Population (Units)*
Canada.........	10,490	1,190
Switzerland.....	4,170	1,070
United States....	65,801	623
Sweden.........	3,200	533
Belgium........	2,250	296
France.........	9,700	248
Italy...........	7,600	197
Great Britain....	8,125	190
Germany.......	11,521	185
Holland.........	896	126
Denmark.......	231	70
Total.......	123,984	380

The small output in Great Britain may be explained in part, we read in the Dominick and Dominick bulletin, "by the industrial depression that has prevailed in that country since 1920; and industry accounts for 70 per cent. of the total demand." It is further stated that:

Chiefly as a consequence of inefficient utilization, the average price per unit in Great Britain is 24 per cent. higher than in the United States. In both countries the price is considerably higher than in any other nation.

Production of electric power has been growing steadily in this country. As against 47,659,000 kilowatt hours in 1922 and 59,000,000 in 1924, the total estimated production for 1926 was 73,000,000 kilowatt hours. "This has been accompanied by a greater efficiency due to larger central stations and interconnecting systems." And yet there seems to be much room for further expansion:

Out of 26,000,000 homes in the United States 16,650,000 are electrified. But these are only partially electrified; and the electric power companies are supplying little more than 5 per cent. of the total power used in industry.

SEVEN INVESTMENT RULES

EVERY once in a while somebody lays down a set of rules or commandments for the investing public. So we may run the risk of repeating some previously quoted advice in part in quoting seven crisp rules summing up an article on investments by Willford I. King of the National Bureau of Economic Research, which appears in *Business* (Detroit):

1. Never buy the securities of an unseasoned enterprise.
2. Never put all your investment eggs in one basket.
3. Don't buy an issue solely on the advice of the fellow that has it for sale.
4. Put only a part of your money into such securities as high-grade bonds, which, in time of inflation, will not rise with the general price-level.
5. Don't deal on margin, and especially don't sell short.
6. When security prices are high, don't buy stocks of any kind, and don't buy bonds having more than two years to run.
7. Don't invest in the securities of a corporation until its past earnings and the true rating of its securities have been studied by yourself or your adviser.

BRITAIN A BORROWING NATION

FOR the first time in modern history Great Britain finds itself a borrowing, not a lending nation, writes Raymond Swing from London to the New York *Evening Post.* It seems that figures issued recently by the Board of Trade revealed a deficit in the British 1926 trade balance of $60,000,000, whereas normally Britain has many times that amount every year to invest abroad. According to Mr. Swing:

The deficit does not represent a permanent change in British economic life, but is the result of the general strike and the coal stoppage.

The net loss in foreign trade, compared with 1925, is $330,000, which is more than accounted for in the decline of exports of coal, iron, and steel.

America again came to the rescue last year by paying heavily for British rubber and tea, and the income from British investments abroad, particularly in rubber, oil, and tea, shows an increase of $100,000,000.

NEW YORK LIFE INSURANCE COMPANY

DARWIN P. KINGSLEY - - President

A Mutual Organization—Founded in 1845—Incorporated under the Laws of New York

346 BROADWAY, NEW YORK, N. Y.

Eighty-second Annual Statement

To the Policy-holders:

You, the members of the New York Life Insurance Company, owned 2,220,784 policies at the close of business on December 31, 1926.

You are a vast community of people representing every honest walk in life—farmers, bankers, tradesmen, merchants, laborers, manufacturers, employers and employees, and professional men and women—young and old—all banded together in a common enterprise for the common good.

If you and your families could be brought together, you would populate one of the largest cities in the world. What a city it would be, with every family striving to safeguard its own future through a single co-operative institution for insurance and savings!

A Prosperous Year

In 1926, this Company, which you own, wrote another chapter of progress:

New insurance over **900 Million Dollars.**

Total insurance in force over **5¾ Billion Dollars.**

Paid to members and beneficiaries over

133 Million Dollars,

including over **53 Millions in Dividends.**

You, the policy-holders, have accumulated assets of more than 1¼ Billion Dollars. This money plus your future deposits and compound interest will eventually provide for payment of the Company's obligations to you and your beneficiaries.

We believe we are one of the companies Hon. Charles Evans Hughes had in mind when he recently said:

"I like to think of the spirit of life insurance, for it is the spirit of achievement."

Nylic Is Your Investing Agent

The fund of more than 1¼ Billion Dollars is invested in accordance with the strict requirements of the laws of the State of New York; and it plays a substantial part in the development of the nation's farms, homes, railroads and public works.

As policy-holders, you practise thrift. You invest soundly and safely. Your money will be available to you and your dependents, impressed with emergency-power, at a time when it will be needed most.

That is what Mr. Hughes meant when he said, in the address to which I have just referred, that a life insurance policy was the best guardian of the purse that had ever been discovered.

Small Average Policy

Your total insurance is impressive; but if you divide it by 2,220,784, the number of policies, you will find that the size of the average policy is only $2,590.

Of course, some members have more than one policy; and many of you are also insured in other companies. But the great majority are UNDERINSURED, as you will see.

Cash Value of Life

Fire insurance and life insurance protect values. The value of a worker's life is the cash worth of his future net earnings, usually far greater than the value of his property. The following points may help you to estimate the monetary value of your life.

The United States Government fixed $10,000 as the insurable life-value of American soldiers and sailors in the Great War, *mostly young unmarried men who had been earning small incomes or none at all.*

Recently, according to the *New York Times*, the American Statistical Association declared that the money value of the average American life (including children and adults who earn no income) is $17,500! *As an income-earner, the value of your life is much greater.*

Consider the capital required to produce income from interest. At 5%, it takes $24,000 to yield $1,200 a year—$100 a month.

How Much Insurance is Needed?

The answers to the following questions will enable you to measure your insurance needs: What is the minimum income you will require in your old age, or if you become totally and permanently disabled; and what is the smallest annual income your family could manage on if you were taken away?

Is it $500 a year, or $1,000, $2,000, $5,000, $10,000, or more?

How much will it require to settle your estate—to pay your debts, mortgages, and taxes, including the federal and state inheritance taxes?

How much cash will be needed at your death, or the death of your partner or an official of your company, to stabilize credit or to enable surviving partners or stockholders to acquire the deceased associate's interest in the business and carry on?

Your Program

You probably have a program, because you are insured; but how does your program stand to-day? How far short is it of the safety mark or the mark you are aiming at? May I suggest that you figure it out for yourself, or call in one of our Agents to help you work out a plan suited to your needs, so that you may feel secure as to your own and your family's future.

DARWIN P. KINGSLEY, *President.*

Financial Summary, January 1, 1927

ASSETS		LIABILITIES	
Real Estate; First Mortgage Loans on Farms, Homes and Business Properties	$440,388,584.62	Insurance and Annuity Reserves	$1,003,297,782.00
Bonds U. S., other Gov'ts, States, Cities, Counties, Public Utilities, R. R.'s, etc.	583,984,590.22	Dividends payable to Policy-holders in 1927	54,535,527.00
Policy Loans, Cash and other Assets	242,692,691.20	All other Liabilities	102,448,175.76
		General Contingency Funds	106,784,381.28
Total	$1,267,065,866.04	Total	$1,267,065,866.04

Total Income in 1926 . . . . . $295,341,937.98

CURRENT EVENTS

FOREIGN

February 15.—Eugene Chen, Foreign Minister of the Cantonese Government, demands that Great Britain rescind the order dispatching 15,000 soldiers to Shanghai and recognize the Canton Government as the only government of China. The British representative replies that the demands are impossible.

February 16.—Cantonese forces hurl the troops of Marshal Sun Chuan-fang back almost to Hangchow, 113 miles from Shanghai.

February 18.—The Cantonese army defeats the forces of Marshal Sun Chuan-fang and loots Hangchow.

February 19.—Sporadic attacks on foreigners occur in the Shanghai international settlement after 60,000 Chinese workers, celebrating the Cantonese victory, go on strike and cause a general stoppage of industry.

Dr. Georg Brandes, noted Danish literary critic, dies in Copenhagen.

February 20.—Eugene Chen, Cantonese Foreign Minister, and Owen O'Malley, the British Chargé, sign an agreement providing for a new municipal council for the Hankow district in which the Chinese will have a majority.

The Belgian and Swedish Governments sign an agreement never to go to war with each other.

February 21.—Under the orders of General Li Pao-chang, Commissioner of Defense under Sun Chuan-fang, between 50 and 100 Chinese suspected of sympathizing with the Cantonese are beheaded in Shanghai and their heads exposed on bamboo poles about the city.

Italy declines President Coolidge's invitation to participate in another naval disarmament conference.

February 22.—Two Chinese gunboats mutiny and go over to the Cantonese, and in attempting to shell an arsenal in Shanghai send shells into the French concession, doing some material damage.

President Diaz of Nicaragua submits to the American Legation a proposal for an offensive and defensive alliance between Nicaragua and the United States.

DOMESTIC

February 15.—The French Government rejects President Coolidge's proposal for another naval disarmament conference, in a note made public by the State Department.

J. Butler Wright, Assistant Secretary of State, is appointed by President Coolidge as Minister to Hungary; Leland Harrison, Assistant Secretary of State, as Minister to Sweden, and Hugh R. Wilson, chief of the Division of Current Information of the State Department, as Minister to Switzerland.

February 16.—Twenty-four people are killed and much property destroyed by a storm in California.

The Senate adopts the conference report on the McFadden-Pepper banking bill, 71 to 17.

February 17.—The Government orders 1,400 more marines to Nicaragua.