THE POOR MAN'S BANK:

THE MORRIS PLAN AND THE DEVELOPMENT OF CONSUMER LENDING

By

Julien Edward Cuny

(Under the Direction of Scott Reynolds Nelson)

ABSTRACT

This thesis explores the growth of small-money lending in the 1910s and 1920s U.S. through an analysis of the Morris Plan, a banking company and later corporation that specialized in lending to working-class customers. As the U.S. urbanized in the late 19th and early 20th centuries, millions of Americans entered into low-paying wage jobs that failed to provide security for financial emergencies. This demographic, typically dependent on an informal network of pawnbrokers and charitable lenders, lacked credit access to banks because of outdated usury laws and persistent stereotypes regarding the morality of the poor. The Morris Plan, which mitigated risk by requiring cosigners for loans, emerged in 1910 with only $20,000 in starting capital and had branches from Massachusetts to California by 1916. Their success helped convince larger banks like Chase of the viability of small-money lending, and played a substantial role in the consumer credit revolution of the 1920s.

INDEX WORDS: 20th Century United States, Capitalism, Consumer Credit, Banking, Cultural and Intellectual History, Business History

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INTRODUCTION: BRINGING WORKERS TO THE BANK

"Without some profit allowed by law there will be but few lenders: and those principally bad men, who will break through the law, and take a profit; and then will endeavor to indemnify themselves from the danger of the penalty, by making that profit exorbitant."[1]

"I think… what we accomplished in the field of consumer credit is a great confirmation of Thomas Jefferson's ideal of democracy."[2]

One of the seismic economic and cultural changes in the 20th century United States is the democratization of consumer debt. Not only did it fuel the near ubiquitous consumer culture of the latter 20th century, it engaged workers and lower middle-class people in a nationally interconnected credit market. Once the supposed purview of businessmen and the otherwise well-off, access to loans through capital-dense financial institutions, be they banks or corporate retailers, became almost a rite of passage for American adults of all races and classes in the latter 20th century. Historians of consumer credit generally point to the 1920s as the watershed decade in the history of consumer lending, where the spark that eventually created an industry that could profitably provide a loan for a pack of gum, took place.[3] Intersecting cultural, legal, and

[1] William Blackstone, *Commentaries on the Laws of England. Book 2* (Oxford: Clarendon Press, 1765-1769), 456-457.

[2] The interview is undated, but Morris made reference to his upcoming seventy-eighth birthday. He was born in 1881. Arthur J. Morris, interview by Edward F. Thomas, circa 1959, found in the Arthur J. Morris Papers, Box 17, Manuscript Division, Library of Congress, Washington, D.C.

[3] The most convincing explanation for this decade serving as the locus point of the consumer credit revolution is the rapid economic growth of the decade, where capital accumulation within companies like Sears reached a level where they could sustain a constant flow of smaller loans. It also depended on the liberalization of credit laws at the state level, allowing companies to provide higher interest loans than previously possible. Beyond that there were cultural and legal changes, less attributable to a single cause, that whittled away long-standing controversies concerning loaning to the poor. Louis Hyman, *Debtor Nation: A History of America in Red Ink* (Princeton: Princeton University Press, 2011); Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton:

economic changes led to the birth of a democratized and interconnected consumer credit market. In particular, new cultural attitudes regarding money lending emerged just as a growing urban working class shifted from the localized credit market of pawnshops and illegal lenders to formal banks. While the historiography marks this as a sudden change, the preceding two decades saw an institutional antecedent to the consumer credit revolution: The Morris Bank, a legal company designed from the ground up to lend to working class borrowers. At its peak in the 1920s, the Morris Bank had 135 branches across 100 U.S. cities as well as 400 imitator banks.[4]

Designed by the Virginia lawyer Arthur J. Morris in 1910, the Morris Plan did not exactly spark a revolution, but it turned the attention of wealthy and interconnected financial institutions such as banks and corporate sellers of consumer durables to the working class as viable borrowers. Alongside a tempering of views that associated borrowing with improvidence, the Morris Bank proved that loans to the poor could work, and that the portable security seen in pawnbroking was unnecessary for small loans.[5] The Morris Plan implemented a standardized form of risk management: the borrower procured two references willing to assume the debt in case of default, almost guaranteeing repayment.[6] Furthermore, they groomed their growing customer base in the art of personal finance using standardized best practices reprinted in

Princeton University Press, 1999); Anne Fleming, *City of Debtors: A Century of Fringe Finance* (Cambridge: Harvard University Press, 2018).

[4] By 1922, Morris Plan Banks operated in over 100 cities. The proliferation of copycat banks occurred in response to the bank's profitability and Morris's failure to copyright his model in the 1915 Supreme Court Case, *Industrial Finance Corporation v. Community Savings and Loan Corporation.* Imitator Banks were often brazen in their advertisements, even in Norfolk where Morris himself would surely see such blatant copy cats. One such ad, from a bank owned by J.A. Markel, resembles a generic variety of the Morris name brand. The Morris Plan Company of New York, *How to Borrow on Industrial Banking* (New York: The Morris Plan Company of New York, circa 1923); Louis N. Robinson and Rolf Nugent, *Regulation of the Small Loan Business* (New York: Russell Sage Foundation, 1935), 154; "Loans at 6% Payable Weekly," *The Virginian Pilot*, May, 15, 1915. (See figures 2 and 3).

[5] Wendy A. Woloson, *In Hock: Pawning in American from Independence through the Great Depression* (Chicago: University of Chicago Press, 2009).

[6] The Industrial Finance Corporation, *The Morris Plan of Industrial Loans and Investments* (New York: The Industrial Finance Corporation, 1915), 25.

company records and distributed as brochures and instruction manuals.[7] Though confident in the cosigner method as the means to ensure repayment, these bankers understood that personal finance was a skill, and that their customers with no previous experience in banking or long-term loans might require education to satisfy an obligation they surely wished to fulfill.[8]

After a few years of reliable growth punctuated by obstacles typically tied to a dearth of capital, the Morris Plan provided loans in $50 increments with the average customers taking about $100 total.[9] This standardized approach took a few years to calcify when, in 1914, Morris and his associates created the Industrial Finance Corporation to homogenize branch operations with some leeway to accommodate individual state laws. The first president of the corporation was Clark Williams, as the already overworked Morris chose to remain at the helm of the New York branch while remaining a practicing lawyer. Ideally, the corporation owned majority stock of new branches, with the branch president assuming a further 25%. The remaining stock was open to private investors. While this gave the corporation legal oversight, individual branches enjoyed a fair amount of discretion in their own affairs.[10] Payment periods were weekly, with the borrower returning to the branch with 2% of the loan each week over the course of a fifty-week

[7] The corporate structure allowed for a high degree of discretion at individual branches, but enforced a consistent corporate image through an internal periodical. Initially called the *Morris Plan Bulletin*, the Industrial Finance Corporation distributed the outlet to every branch starting in 1915. The outlet included coverage in local news outlets, restatements of the company's ethos, emergent problems faced by bank managers and their solutions, and puff pieces praising the character of specific employees or customers. It appears that the *Bulletin* went out of print around 1918, replaced by individual branch or regional periodicals. For the New York Branches where Morris became most active, they launched a periodical known as, amusingly, *Thrift*, before changing it to *The Planet.* See *Thrift* 1, no.1 (1918); *The Planet* 6, no. 2 (1927). Found in the Arthur J. Morris Papers, Box 14, Manuscript Division, Library of Congress, Washington, D.C.

[8] The Morris Plan Company of New York, *How to Borrow Money and How to Invest Money in Small Amounts* (New York: The Industrial Finance Corporation) 1918. Found in the Arthur J. Morris Papers, Box 14, Manuscript Division, Library of Congress, Washington, D.C.

[9] All monetary values are contemporary unless otherwise noticed. While $100 loans were normal, more successful branches like Atlanta's lent an average of $144 per customer as early as 1914. Louis N. Robinson and Rolf Nugent, *Regulation of the Small Loan Business* (New York: Russell Sage Foundation, 1935) 178; "Hard Luck Victims Throng at New Anti-Loan Shark Bank." *Atlanta Georgian* June, 20, 1911; "Loan and Savings Company Saves Thousands," *Athens Banner*, March 4, 1913.

[10] Interview with Edward Thomas, 97-102.

period. Bankers typically collected the "interest" up-front as essentially a down-payment for the loan, though interest collection varied depending on state laws.[11]

Customers needed to clarify their intentions when asking for a loan, as Morris correlated the purported use of the loan with the borrower's reliability.[12] For a representative example of the borrowers' needs, the Morris Company of New York shared with shareholders its customers' reasons for borrowing in its inaugural month of operation from December of 1914 to January of 1915. Of the 201 surveyed, a paltry eight customers cited "business expansion" as their reason. All others cited some form of debt or vital expenditure, be that medical expenses, household amenities, or extant loans from illegal high interest creditors. The single largest reason for borrowing, besides the ambiguous "miscellaneous debts" that sixty-nine respondents claimed, was "pay off loan sharks."[13] Indeed Morris banks viewed combating predatory lenders as the primary moral justification for their existence.[14] Marketing took several approaches, primarily emphasizing the grasp of sharks who relied on the paucity of credit available to workers.[15]

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[11] Some states included fees associated with processing a loan as interest. This omission did allow the Morris Bank to charge extra fees in some states, leading to practical interest rates as high as 18%. Critics of the bank, most notably members of charitable credit agencies known as remedial lenders, did not fail to recognize this transgression. The Morris Plan Company of New York, *The Morris Plan Company of New York* (New York: The Morris Plan Company of New York, circa 1914. Found in the Arthur J. Morris Papers, Box 14, Manuscript Division, Library of Congress, Washington, D.C.; Louis N. Robinson, "The Morris Plan." *The American Economic Review* 21, no. 2 (1931): 222; Fleming 53.

[12] Arthur J. Morris, interview by Edward Thomas, 210; Arthur Morris, Father of Consumer Credit, Dies," *Washington Post*, Nov. 22, 1973, found in the Arthur J. Morris Papers, Box 14, Manuscript Division, Library of Congress, Washington, D.C.

[13] Thirty-seven customers cited loan shark debt as their reason. Thirty-four cited either debts or expenses related to medical concerns or death of a loved one or provider. However, only four cited pawnbrokers, the standard means of credit for working and lower middle-class borrowers in the period, particularly in New York. Wallace D. McLean, letter "To the Stockholders of the Morris Plan Company of New York," Feb. 3, 1915. Found in the Arthur J. Morris Papers, Box 7 & 8, Manuscript Division, Library of Congress, Washington, D.C.

[14] Even among internally distributed material like *The Bulletin*, the company took this moral imperative seriously enough to lead their second volume with a restatement of this purpose. "An Anti-Loan Shark Campaign," *Morris Plan Bulletin* 2, no. 1 (1917): 1. Found in the Arthur J. Morris Papers, Box 7, Manuscript Division, Library of Congress, Washington, D.C.

[15] While most Morris material focused on the triumph of the customer, they did trade in sensational depictions of loan shark treachery, occasionally sinking into the quagmire of anti-Semitic tropes. In one such *Bulletin* article, a reprinted *Chicago Tribune* cartoon depicted a loan shark dressed in stereotypical Jewish garb with a large nose and humorless scowl as he fleeces a debtor out of more interest for being six minutes late. "A Question of Upkeep,"

While the company referred to their customer base as members of the "industrial classes," it warrants stressing that their clients were on the wealthier end of the working class.[16] Fifty-eight of these borrowers from the same survey were clerks, thirty-one were firemen or police, and twenty were even managers or employers of some kind.[17] Men in middle class professions like accountants and lawyers did patronize the bank, but only rarely in the first decade of operation.[18] While Morris preferred to say he expanded credit access to all Americans, his business more accurately targeted a relatively privileged subset of the working class as well as the lowest rungs of the middle.[19] These were men, as Morris enjoyed recounting, with stable income but insufficient wealth to hold stock or a checking account in a standard commercial bank. Thus, when emergencies struck, those banks refused loans to these men as they were either not account holders or their loan request was too small to warrant the administrative costs of transaction and the risk of default.[20] Morris' cautious approach mitigated much of this risk, but those restrained attitudes and strict conditions for lending left much of the working class out of their clientele.

Morris Plan Bulletin 2, no. 10 (1916). Found in the Arthur J. Morris Papers, Box 7, Manuscript Division, Library of Congress, Washington, D.C.

[16] The Morris Plan Company of New York, *How to Borrow on Industrial Banking* (New York: The Morris Plan Company of New York, circa 1923) Found in the Arthur J. Morris Papers, Box 8, Manuscript Division, Library of Congress, Washington, D.C.

[17] McLean to Stockholders, Feb. 3, 1915.

[18] That same report listed three accountants, who were most likely their wealthiest borrowers. There were no lawyers on this survey. Ibid.

[19] This a prominent example of the company's public image scraping against the reality of their business practice. In popular articles, defenders and members of the bank preferred to depict their customers as poorer than they typically were, exaggerating the reach of their credit services. "Beating the Money Shark: Lending Money to Small Workers—How the Morris Plan is Filling a Great Gap in the Industrial Machine," *Business America: The Magazine of Fair Play*, July, 1914, 52. Found in the Arthur J. Morris Papers, Box 14, Manuscript Division, Library of Congress, Washington, D.C.

[20] Interview with Edward Thomas, 10-15.

Morris Banks rarely lent to women, though internal sources never appear to expand on why, instead highlighting with pride those few instances of women borrowers.[21] There are several likely reasons for this, the first being that a woman might struggle to acquire two references because of popular stereotypes about women handling money. The networks of patronage that the company relied on to mitigate risk often did apply to working women. Regardless of their quality as an employee, it seems likely that most employers would never cosign a loan to a woman where they might trust their male employees. The same barrier likely existed among family members and other personal relations, as they might find the notion of a woman handling a year-long loan either distasteful or improbable. Beyond that, tentative stockholders, whose support Morris depended on to expand, likely had no interest in risking their capital on a bank that trusted women to manage money over a year-long financial transaction no matter the precautions in place. Another possible reason is that, since women generally earned less than men in comparable social classes, they might lack the earning power necessary to procure the minimum $50 loan.

When pitching to investors, the company stressed their moral righteousness and caution as an explanation for its restrained business model.[22] When advertising to customers, they emphatically defined the Plan as a business, a place where responsible working men and occasionally women could reach fair financial arrangements regardless of class.[23] While quite successful in the 1910s and 1920s, its initial purpose of lending to workers struggling to make ends meet in the wake of financial strains like injuries, illegal lenders, or seasonal scarcity of

[21] In these rare cases, they tended to publicize a narrative of the bank saving an indebted woman from a shark. Peter W. Herzog, *The Morris Plan of Industrial Banking* (Chicago: A.W. Shaw Company, 1928), 91; "Aunt Lizzie and the Loansharks" *Morris Plan Bulletin* 1, no. 11 (1915): 135. Found in the Arthur J. Morris Papers, Box 7, Manuscript Division, Library of Congress, Washington, D.C.
[22] Interview with Edward Thomas, 50-52; Morris Plan Bankers Association, *Banking on Character for a Quarter Century: Silver Anniversary, 1910-1935* (New York: Morris Plan Bankers Association, 1935).
[23] "$7,000,000 Company to Fight Loan Sharks," *The Atlanta Constitution*, June, 11, 1914.

work shrank in importance as the Morris Plan faced competition from emergent lenders adapted to newly liberalized credit laws.[24] The Morris Bank eventually adopted an unsustainable strategy of serving as middlemen for installment plans, providing loans designed to buy commodities like cars and furniture from companies yet to design their own installment plans like Studebaker.[25] They also diversified their business to sectors banks traditionally worked in, such as home mortgages and business investments. In time the Morris Plan grew to resemble traditional banks, making business loans and mortgage essential aspects of their business. In turn, larger traditional banks like Chase adopted features of the Morris Plan by allowing smaller loans, diminishing the peculiar character of Morris Banks throughout the 1920s and 1930s.

This shift occurred for several reasons, the two most obvious being the loosening grip of state credit laws and the high degree of discretion given to individual branches.[26] At the corporate and branch level, liberalized laws allowed for higher interest rates, typically in the form of various fees applied to loans. Higher interest meant revenues, and corporate policy moved in the direction of commercial, home, and luxury loans as opposed to personal loans for necessary services. They adopted this business strategy gradually throughout the 1920s, losing

[24] The Morris Bank suffered a brief halt in growth in 1917, most likely because of the country's entrance into World War I. Aside from that, their growth remained consistent from 1910-1930. Financial Research Program of the National Bureau of Economic Research, *Industrial Banking Companies and Their Credit Practices*, by Raymond J. Saulnier (Washington D.C. 1941), 1-2.

[25] In the New York market, where Morris himself was most active, he recounted working with General Motors to secure exclusive contracts on car loans with the help of his unlikely ally, the Catholic Governor Al Smith. Interview with Edward Thomas, 130. "Save Money on Your New Car," *The Southern Israelite* (Atlanta, GA), Oct. 6, 1939.

[26] Morris contracted the Spanish Flu in 1919 and barely survived the ordeal. Prior to his illness, he had remained an active partner in his Norfolk law firm in addition to running the New York Branch of the Morris Plan and attributed his near-death experience to overwork. Morris remained active in the company, but focused more on his emerging life insurance company, also under the name Morris. He is probably most famous now as the namesake of the University of Virginia's Law Library, where he lectured on the practice of consumer lending later in life. The company never shed its charitable image and Morris maintained that character remained the basis of all credit, but became more brazen in its privileging of profit over benevolent lending. Consumer Bankers Association, *School of Consumer Banking at the University of Virginia* (Charlottesville: Consumer Bankers Association, 1952); Ibid., 126, 128, Baradaran, 524. Found in the Arthur J. Morris Papers, Box 7 &10, Manuscript Division, Library of Congress, Washington, D.C

what made them historically distinct as they grew to resemble traditional banks, who in turn ventured into small money lenders during the 1920s and 1930s. Morris' business empire expanded into life insurance, mortgages, and business loans among other things starting in the 1920s, and his enterprises in insurance eventually overshadowed the bank that faced decades of decline beginning in the Depression.[27]

[27] Not all of the branches closed their doors. Some, like the Atlanta branch, changed their name and typically adopted a credit union model. Remarkably, one bank retains the Morris Bank name to this day in Terre Haute, Indiana. It is a subsidiary of the First Financial Bank, a regional chain based out of Terre Haute, and does not maintain the Morris model. "Bank Of Georgia Gets a National Charter," *The Atlanta Constitution*, Sep. 3, 1965; David Mushinski and Ronnie J. Phillips, "The Role of Morris Plan Lending Institutions in Expanding Consumer Microcredit in the United States," in *Entrepreneurship in Emerging Domestic Markets: Barriers and Innovation*, eds. Glenn Yago, James R. Barth, and Betsy Zeidman (Santa Monica: The Milken Institute, 2008), 121.

CHAPTER 2

THE MORRIS BANK IN THE HISTORY OF AMERICAN CONSUMER LENDING

Louis Hyman provides the most succinct explanation of the shift in the consumer credit revolution of the 1920s; the growth of the U.S. economy to a point where sufficient capital allowed for a constant flow of credit without the need for collateral.[28] This growth in the economy led to the creation of finance companies, which specialized in profitable lending and often existed as subsidiaries of larger corporations like General Electric or General Motors. These companies, he argues, took advantage of the growing American economy to lend on a massive scale, making small credit immensely profitable. He presents the General Motors Acceptance Corporation (GMAC), founded in 1919, as the first successful example of this company. [29] The Industrial Finance Corporation, which focused on more diverse financing projects than buying cars, precedes GM's version by five years and had branches from Massachusetts to San Francisco by 1916. Still, the restrictive lending laws of the period do explain much of the earlier Morris Plan's problems accumulating revenue. Hyman's accumulation of capital model sheds light on why the Morris Bank did not corner the market on consumer credit in the 1910s; but it takes more work to explain why it failed to do so in the 1920s. While Hyman privileged the economic growth of the United States in the 1920s as the prime mover of widespread participation in the consumer credit market, this project focuses on

[28] The massive increase in consumer debt in the 1940s, 1950's and beyond emerged from more than the growth of GDP, and Hyman clearly distinguishes this. He spends much of his book explaining the role of various government programs, many stemming from the Great Depression, that incentivized more access to credit in massive economic sectors like housing and automobiles. The FHA is one such example. Hyman, 53.

[29] It still exists as Ally Financial Inc. Ibid, 21, 26-30,

the cultural and technical changes that introduced the working class into the potential customer base of major financial institutions like banks.[30] Hyman's driving point is convincing, as the average American's debt constituted between 4-6% of their annual income in 1920, and about 10% in 1929.[31] This change clearly mattered, but the growth of debt as percentage of GDP per capita fails to capture the shift from localized working class borrowing to their participation in a national credit market. Both legal and cultural changes contributed to this growth in the customer base for the country's wealthiest financial entities.

Hyman's dichotomy is incomplete, not only for overstating the revolutionary character of the 1920s and ignoring corporate progenitors to entities like GMAC, but also by ignoring rural areas. Farmers had long depended on credit to survive the year in the form of the crop lien system.[32] In urban centers that relied heavily on agricultural commodities like wheat or cotton, this system of providing credit to farmers received sustained news coverage.[33] In cash-strapped regions like late 19th-century Georgia, it served as the only means for many farmers to partake in any form of the cash nexus, with the farming commodity serving as specie. While Hyman's bold claim to encompass a national study of consumer credit tends to miss this phenomenon, this paper leaves the credit market of farmers to other scholars. The Morris Bank was an urban phenomenon and this paper explores its role in bringing urban workers into the purview of

[30] Hyman, 6-7, 17, 294, n. 9.
[31] Martha L. Olney, *Buy Now, Pay Later: Advertising, Credit, and Consumer Durables in the 1920's* (Chapel Hill: University of North Carolina Press, 1991), 86-91.
[32] The Civil War forced the Union states to boost its grain production and a variety of international misfortunes raised prices on European wheat, boosting the comparative advantage of American wheat. The growing centrality of wheat in the agricultural sector made it a facsimile of currency for many poor farmers in the South and elsewhere. Scott Reynolds Nelson, *A Nation of Deadbeats: An Uncommon History of America's Financial Disasters* (New York: Vintage, 2012), 152-156; C. Vann Woodward, *Origins of the New South: 1877-1913* (Baton Rouge: Louisiana State University Press, 1951), 175-180.
[33] J.J. Holleman, "Does Cotton Oligarchy Grip South and Defy All Plans for Diversification?" *The Atlanta Constitution*, Sept. 27, 1914.

banks. Even with this limited scope, Hyman's ambitious argument ignores the development of a consumer credit market in U.S. cities, where pawnshops played a central role.[34]

In regards to the urban working class, the primary customer base of the Morris Plan, Hyman also ignores the admittedly localized, but ubiquitous credit marketplace of pawnbrokers. As early as 1828, New York City municipal records indicate at least 78,000 of the city's 240,000 residents obtained loans, averaging less than $2, from a pawnbroker.[35] Loans usually had very short durations, sometimes as brief as a week or less. Morris Banks by comparison, implemented a standard year-long loan period in its initial years of operation and eventually favored much longer terms as they spread into housing and business loans.[36] Unlike banks, pawnbrokers rarely cared why customers needed a loan, as they had little need to assess risk.[37] Pawnshops also largely relied on the patronage of women, who typically pawned household items as a means of supplementing either individual income or that of her family. By comparison, the Morris Bank lent almost exclusively to men.[38] Pawnshops exemplify the underlying credit market of the period, where loans were often short-term, small in value, and used to shoulder emergent crises like insufficient work hours, illnesses, and other punctuated costs. They were not, as a general

[34] The localized and informal nature of pawnbroking makes quantitative evidence rare. However, New York State implemented a "pawnbroker's act" in 1895, where they attempted to install licensing requirements for potential brokers. It seems that most advocates of credit liberalization found laws like these inadequate, and the level of compliance among pawnbrokers is unclear. See Arthur Ham, *The Chattel Loan Business* (New York: New York Charites Publication Committee), 12-16.

[35] John Caskey, *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor* (New York: Russell Sage Foundation, 1994), 16-17.

[36] The bank eventually broke from this year long only policy by providing other options like 6 months, 8 months, etc. Herzog, 91-93.

[37] Most brokers did prod or assess if they thought the prospective borrower stole the pawn. The stereotype of pawnbrokers as fences for criminals worried most brokers, who had no interest in the police or original owner coming over to harass them or worse. Generally, pawnbrokers established amicable relations with police departments if they existed. Woloson, 122, 129, 137.

[38] Women were reliable pawners for several reasons. In addition to such transactions being the expectation of a wife as it related to managing the household, women often pawned because they made less. This was especially true of single women. While the Morris Bank rarely had the gall to suggest that women were irresponsible borrowers, it warrants mention that the Plan lent to men overwhelmingly. In one New York City branch for example, only 281 of 6,260 borrowers were women. Ibid., 91-96. Herzog, 91.

rule, taking out money for consumer goods.[39] The Morris Bank, though dealing in much larger values, initially provided loans almost exclusively for reasons of need. Despite Morris' repeated claims that 80% of Americans had no access to credit before his bank, the wide use of these brokers put the lie to that grandiosity.[40] Unlike later consumer lenders, they eventually treated both roles as essential to their business model, providing loans for both essential and luxury spending.[41]

The prevalence of women as pawners also speaks to the issue of character that the Morris Bank and non-profit advocacy groups like the Russell Sage Foundation valued so seriously.[42] In the language of self-reliance and responsibility that characterized many advocates and conservative opponents to credit liberalization, women were clearly viewed as categorically less responsible than men. This adds a gendered component to the history of consumer lending that the finance focused argument often overlooks.[43] In order to make lending to the poor palatable, Morris pitched his service as a transaction between responsible actors, and showed through company policy that he viewed men as more capable of sustaining long-term financial transactions. Sources rarely explicate this change, but frequency of women in pawning likely contributed to its underrepresentation in the literature and popular memory.

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[39] The typically small size of pawnbroking loans, and the frequency of women borrowers, both likely explain why so few Morris customers sought loans to pay off pawnbrokers.

[40] Even in Norfolk, pawnbrokers enjoyed enough success to advertise in the city's paper of record. Interview with Edward Thomas, 15; "Moses Glasser, Pawn Broker" *The Virginian Pilot*, Nov. 13, 1910, Found in the Library of Congress Newspaper and Current Periodical Division. See Figure 1.

[41] "Anti-Loan Shark Bank Outgrows its Resources," *Atlanta Georgian*, Nov. 6, 1911; "Save Money on Your New Car," *The Southern Israelite* (Atlanta, GA), Oct. 6, 1939.

[42] Despite their ubiquity, both Morris and Sage pointed to loan sharks as the definitive example of the poor person's creditor. One could read hundreds of pages from both of these institutions and find only scattered mentions of pawnbrokers, whereas loan sharks are a reliable presence.

[43] While Hyman acknowledges that the 70s and beyond saw far more individual women holding credit reports independent of husbands or other male relatives, he fails to point out that this constitutes something of a return to form where women were often primarily responsible for a household's credit. Hyman, 198-199.

Lendol Calder's work also speaks to the mystification of this once widespread industry of localized credit markets. In *Financing the American Dream,* Calder links his study of consumer credit to popular memory in what he terms the "myth of lost economic virtue."[44] Simply put, this term describes the cultural phenomenon of Americans exaggerating the thriftiness of their ancestors. Mark Twain's *Gilded Age* provides an early articulation of this myth, where the conspicuous consumption Twain diagnosed spoke to the supposed extravagance of his own time as evidence of moral degradation. He further argued that a supposed bygone era of thrifty antebellum Americans serves as a superior moral alternative. Calder traces this cultural impulse throughout the 20th century, where it gained greater acceptance as the middle class grew and living conditions became more extravagant.[45] His broader takeaway is rather ironic; the material abundance of the 1950s economic boom did not provide the growing middle class with leisure as they continued to work in order to afford the articles of middle-class life such as unnecessary luxury appliances. This constructed necessity for credit to afford luxuries was novel indeed, but it forgets the active local participation of the working class in credit markets to afford necessary expenditures like food.[46]

Another central feature of the early 20th century credit market is the strict usury laws and the low margin of error that created for legal creditors. A centuries-old holdover from English Common Law, strict usury laws in most U.S. States capped maximum interest rates between 6% and 10% per year.[47] These laws had two particularly relevant consequences for this project: they forced banks to employ strict caution in lending and limit loans to sums too large for working-

[44] Calder, 22-24.
[45] Ibid., 30-31.
[46] Calder acknowledges the limitations of his myth of lost economic virtue, as it is a broad cultural prescription. In his notes, he points out that there is no American historian of pawnbroking, which appears correct in 1999. Woloson's valuable work filled this niche. Ibid., 312 n. 16.
[47] In Georgia for example, the legal cap on all interest rates was 8% in 1910, and remained the case until credit liberalization in 1920. O.C.G.A. §3436 (1910).

class people to do business with them. Banks and other large creditors coped with the risk of lending with technologies like the Dun report, meticulous files designed to gauge the character of prospective borrowers.[48] Rowena's Olegario's work explores the Dun record as a means of gauging the trustworthiness of economic actors. Initially designed in the 1840s, Dun records mitigated risk by exhaustive recording of traits and personal history deemed relevant to their future potential as a borrower. While "character," "habits," and "[business] partners" entered into a subject's credit-worthiness, relevant experience, available capital, and the existence of failed ventures played a greater role in determining a conclusion in the form of a letter grade.[49]

While an invaluable resource for banks and a fascinating lens into perceptions of good character in the 19th century, these records required too much time and money to make for the vast multitude of Americans. Furthermore, categories related to available capital and business experience were irrelevant to workers. Thus, character-related questions and the stability of employment were the most relevant queries for Morris, with categories common to Dun records just as past business failures not entering into the equation. Dun agents also rated subjects on a scale, a pointless exercise in the case of small money lending where even occasional defaults could sink the company.[50] The Morris Bank saw potential customers through a binary lens, creditworthy or not. Such lack of assurance mattered little to the traditional working-class creditor of pawn shops, who mitigated risk through the possession of portable security, or objects

[48] While Jonathan Levy's work historicizes risk, the Morris Bank example does not fit neatly into his project as their attitude toward risk was to eliminate it more than manage it. Jonathan Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge: Harvard University Press, 2012).
[49] Rowena Olegario, *A Culture of Credit: Embedding Trust and Transparency in America Business* (Cambridge: Harvard University Press, 2006), 146.
[50] James D. Norris, *R.G. Dun & Company 1841-1900: The Development of Credit-Reporting in the Nineteenth Century* (Westport, Connecticut: Greenwood Press, 1978), 93.

that served as collateral. Morris innovated in a systemic means of risk management through the cosigner system, which cost almost nothing to the company.[51]

To be fair to Hyman, these earlier credit markets differ from latter 20th century consumer credit in that they relied on portable security. In the case of the crop lien, wheat usually served this purpose.[52] In pawning, objects as common as cloth napkins served as collateral in short-term loans. The Morris Plan, like most modern consumer credit, simply lent money and relied on enough of their customers to pay them back with interest to offset defaults and administrative costs. This is a crucial historical distinction that enabled an intensified consumer credit market to emerge, allowing for an easier transfer of money both between creditor and borrower as well as between creditor agencies. The corporatization of the Morris Plan under the Industrial Finance Corporation, where the New York based company held majority stock in individual branches, cemented this network of cash flow and created a truly national consumer credit agency.[53]

While the shift from portable security to simple cash was a crucial distinction, credit reform also had an unavoidable moral component that activists and critics took seriously. Central to this debate was often the moral status of the poor and working classes. In the period discussed, popular print concerned with debt as a societal phenomenon viewed the indebted poor as either sympathetic victims or irresponsible fools whose debt spoke to a wider lack of character. Conservatives, those who opposed credit liberalization, tended to place the onus of responsibility on the borrower in the Gilded Age and Progressive Eras, though antipathy towards lenders

[51] Olegario, 148-150.
[52] Woodward, 175-180.
[53] The first west coast Morris Plan bank appeared to open in San Francisco in early 1916 or late 1915 with an impressive $250,000 in starting capital. The Morris Plan Company of San Francisco, *How to Borrow Money in Small Amounts* (San Francisco: The Industrial Finance Corporation, 1916). Found in the Arthur J. Morris Papers, Box 8, Manuscript Division, Library of Congress, Washington, D.C.

remained common. Morris advertisements, by comparison, depicted the indebted man as determined, sensible, and relieved to discover the service provided by the company.[54]

Success manuals were immensely popular and exhibited a different strategy for excellence than mid-20th century texts like Dale Carnegie's *How to Win Friends and Influence People* by focusing on the interiority of the reader. As opposed to Carnegie, who privileged presentation and charisma as the means of success, these older self-help books correlated material success with character or virtue, traits one usually kept private until occasion demanded.[55] While less cynical and pragmatic than Carnegie's, the sentiment in these books promoted a social Darwinist ethos that the poor ultimately deserved their fate, as those with sufficient responsibility would inevitably pull themselves up from poverty.[56] "Responsibility" encapsulates the guiding moral principle of these texts, particularly on the topic of debt. In their understanding, living within one's means constituted a sacred moral obligation, where indebtedness signaled extravagance as opposed to hardship. Thus, these success manuals had little use for blaming the loan shark or the pawnbroker; such finger pointing only excused the real issue at hand, the responsibility of men to manage their own affairs.

These concerns relate to a broader cultural phenomenon that Scott Sandage calls the age or spirit of "Go-Ahead," a peculiar American ethos championing and expecting social mobility across economic classes.[57] While an optimistic notion that firmly rejected classist Britain, the "Go-Ahead" ethos shifted the cause of poverty from an ostensibly natural phenomenon to the

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[54] **"**I will not live in debt another month!" *Thrift* 1, no.1 (1918)**.** See Figure 3. Found in the Arthur J. Morris Papers, Box 7, Manuscript Division, Library of Congress, Washington, D.C.

[55] Hilkey contextualizes her own work with her explicit interest in feminist cultural history. If such an ideal of womanhood preoccupied, and continues to preoccupy, American culture, do similar ideals exist for men? She believes that such ideals exist. Judy Hilkey, *Character is Capital: Success Manuals and Manhood in Gilded Age America* (Chapel Hill: University of North Carolina Press, 1997), 8-9.

[56] Ibid., 3-5, 71-72; Scott Sandage, *Born Losers: A History of Failure In America* (Cambridge: Harvard University Press, 2005), 247-250.

[57] Ibid., 26, 84-85.

fault of individual poor people. In a word, it created "losers." These losers had failed to make use of the American promise, continuing to wallow in poverty as men of proper discipline and character enjoyed the successes due to them.[58]

Advocates of liberalization tended to focus on consequences of the constrained markets, namely that it led to the proliferation of "loan sharks." Loan sharks, or illicit lenders who charged predatory interest rates, served a convenient role as the villain for pro-liberalization advocates. While certainly a problem in growing cities with rampant poverty, illicit lenders were portrayed with such sheer villainy and corrosiveness in a manner that tended toward the cartoonish; advocates preferred to focus on these unsympathetic criminals than the far more common and somewhat tolerated legion of pawnbrokers that served as the primary means of credit access for working class borrowers.[59] However, it warrants mention that the rapid industrialization of U.S. cities did appear to create more fertile feeding grounds for these illicit lenders as more potential customers entered cities to find dangerous, poor-paying jobs.

Sharks employed various tactics of legal mystification to create an illusion of legitimacy for a customer base that often did not know the strict laws surrounding lending.[60] Threats of knee-breaking and the like that popular media still associate with loan sharks did certainly occur, but such threats cracked the façade these lenders aimed to construct.[61] Feigning legitimacy proved more attractive. State credit laws often left loopholes for predatory practices such as "salary buying." This basically amounted to wage garnishment, where the borrower agreed to

[58] What this promise was remained vague. Though as Sandage points out, even children could reliably recite the "mundane causes of failure" such as sloth, drunkenness, extravagance, etc. Ibid., 74
[59] The Atlanta Loan And Savings Company, *The Anti-Loan Shark Bank* (Atlanta: Atlanta Loan And Savings Company, 1912). Found in the Arthur J. Morris Papers, Box 8, Manuscript Division, Library of Congress, Washington, D.C.
[60] Fleming, 26.
[61] Ibid., 23-24.

fork over a percentage of their paycheck to pay off a loan.[62] In other cases, lenders threatened to tell the borrower's boss of their arrangement, which often resulted in the debtor's termination as indebtedness served as an indictment of their character.[63] If a lender reached a certain level of wealth they could hire lawyers to drape their activities in a shroud of legality that the lawyer Morris encountered when expanding into new cities. In Morris' personal recollections he complained of lawyers in the pocket of local loan sharks who stymied efforts of the Industrial Finance Corporations to open branches in their market.[64]

Beyond that, borrowers often did not know the laws related to credit and never thought to turn to police or question lenders' tricks. The Atlanta Loan and Savings Bank, the first so-called "anti-shark bank" that served as the proof of concept for the Morris Plan's economic viability, faced this problem directly.[65] Most sharks simply did not fear the law and some near Atlanta expressed so little concern as to blatantly advertise their services in newspapers.[66] This was not unreasonable, as they filled a niche that pawnbrokers, who specialized in small value loans, did not fill. If enforcement did not affect black-market lenders, why not advertise their services if no legal competition existed to undercut them?

While drastic economic changes in the U.S. created an unprecedented demand for credit access, one should not get the impression that untold millions of Americans fell into Thoreau's "ancient swamp" of debt during industrialization. Clearly, workers tried to make the best of their economic conditions. Informal and locally organized credit provided relief for the indebted. The

[62] Arthur Ham, *Remedial Lending: A Constructive Program* (New York: Russell Sage Foundation Division of Remedial Loans, 1912), 7-8
[63] Ibid., and Calder, 93.
[64] Interview by Edward Thomas, 122, 174.
[65] "Hard Luck Victims Throng at New Anti-Loan Shark Bank." *The Atlanta Georgian* June, 20, 1911.
[66] The same man appears to place an advertisement for his services a few months later in the same paper as an attorney. W.W. Mundy, "Money To Loan," *The Cedartown Standard* (Polk County, GA) Aug. 13, 1903; W.W. Mundy, "Attorney at Law," *The Cedartown Standard* (Polk County, GA), Nov. 12, 1903.

rarity of sources on these informal operations makes generalizing difficult, but workers of the same profession, circles of friends, patrons of the same saloon, and extended families often pooled money together to provide a nest egg for emergency expenditures like medical procedures.[67] In some rare cases, employers provided their workers access to advance wages should the need arise.[68]

The works previously covered all contribute to a lively and emergent discussion on American consumer lending, but more work must be done to explore the transition of workers from security-based lending to the cash-based lending Hyman discusses. There is also insufficient focus on non-profit money lending, particularly its role in normalizing lending to the poor. As a moral question, opposition to usury was so entrenched as to appear natural in Christian Europe. By extension, moneylenders assumed malicious connotations, and centuries of charitable lenders helped chip away at this façade. From a technical standpoint traditional banks simply did not see the poor as viable customers, both because they viewed them as irresponsible and that the administrative costs of lending made small loans unprofitable.[69] The Morris Bank addressed both of these concerns through a standardized practice of character assessment, the cosigner requirement, the weekly due date on loan payments, and various discretionary procedures such as interviews and instructional brochures. They did not argue that the poor were categorically moral, but that most men at the more prosperous end of the working class had the capacity for holding credit and that the Morris Plan could accurately label these men.

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[67] For African American workers, these Mutual Aid Societies were often the only available means of legal credit outside of churches and family members. Tera Hunter, *To 'Joy My Freedom: Southern Black Women's Lives and Labors After the Civil War* (Cambridge: Harvard University Press, 1997), 106; Tyler Anbinder, *Five Points: The 19th-Century New York City Neighborhood That Invented Tap Dance, Stole Elections, and Became the World's Most Notorious Slum* (New York: The Free Press, 2001), 195, 372.

[68] Remedial Lenders often called this practice an "Employer Loan Fund." *Remedial Loans: A Constructive Program*, 9.

[69] Morris Plan Bankers Association, *Banking on Character for a Quarter Century.*

CHAPTER 3

VILE USURY: THE MORRIS PLAN IN THE HISTORY OF LENDING TO THE POOR

Opposition to "usury" is obviously ancient, with admonishments of lending at interest in the earliest books of the Old Testament. Diverging interpretations of Deuteronomy permitted Jews to lend to non-Jews.[70] Jesus' assaults on moneylenders in the New Testament generally led Christians to regard all interest as sinful, one of Christ's many rejections of the Old Covenant. Around the tenth century the Catholic Church came to associate money-lending with Jews as evidence of the trade's inherent immorality, which is to say, its inherent Jewishness.[71] Aquinas distilled the anti-Semitic position succinctly, namely that usury is evil and it is only natural that Jews would exploit non-Jews because of their supposed narrow tribal allegiance.[72] These ingrained prejudices continued to sour the reputation of the creditor profession in the U.S. where the vast majority of lenders were not even Jewish. Bankers and lenders carried these associations well into the 20th century and into the present.[73] Broad shifts in attitude among Protestant intellectuals occurred in response to growing ubiquity of capitalism, but also due to John

[70] The most famous relevant passage is Deut. 23:30, which states "unto thy brother thou shalt not lend upon interest." The most popular reading of this passage suggests that Jews may lend at interest to Gentiles as they are not their brothers so to speak. This was not a universally held position among Jewish scholars, with ample evidence throughout the medieval period of rabbis chastising money-lending for profit in any context. Christian hostility of the practice surely did go back to the early medieval period, but grew more intense among Christian intellectuals from the 11th century onwards, with Anselm of Canterbury's famous assertion that usury and theft were indistinguishable transgressions. Aaron Kirschenbaum, "Jewish and Christian Theories of Usury in the Middle Ages," *The Jewish Quarterly Review*, New Series, 75, no. 3 (1985): 270, 273-274.

[71] The Industrial Finance Corporation tended to avoid trading in Anti-Semitic tropes, with rare exceptions such as the reprinting of a racist *Chicago Tribune* cartoon depicting a loan shark dressed in stereotypical Jewish garb. At the branch level, advertising could get uglier, with Atlanta's branch covering pamphlets with a vile portrait of a loan shark with a hooked nose and unsettling smile. The Atlanta Loan And Savings Company, *The Anti-Loan Shark Bank: Operating the Morris Plan.*

[72] Benjamin Nelson, *The Idea of Usury: From Tribal Brotherhood to Universal Otherhood* (Chicago: University of Chicago Press, 1949) 14, 235.

[73] Robinson and Nugent, 144.

Calvin's argument for Christian brotherhood. In short, Calvin argued that God "permitted many things… which are in themselves not good," or that certain immoral actions may reasonably go unpunished. This is why God permitted the Jews to practice usury, and the brotherhood of Christians provided sufficient justification for money-lending at interest between Christians.[74] This theological justification corresponded with a gradual adoption of church sponsored institutions seen initially in the Catholic Church, both of which inspire credit reformers in the late 19th century United States.

Church sanctioned lenders served as an early and influential example of respectable lending in the eyes of more gradual reformers. These lenders, called *mons pietatis* or mountains of piety, were essentially non-profit pawnshops that proliferated in 15th century Italy.[75] While a marginal force, these charities gave later advocates of credit liberalization an historical antecedent.[76] Implicit in these institutions' existence is a belief in a deserving poor, the belief that the Go-Ahead spirit of the 19th-century U.S. pushed back against. However, these shops did not lend to all applicants, suggesting an acknowledgement of some risk assessment or deserved poverty. These institutions show that the shifting cultural role of money lending had two components relevant to this project, improving the perceived character of both the money-lender and the debtor.

Arthur Morris was aware of these progenitors, and traveled to Germany to research small money lenders in the years leading up to the creation of the Plan. These community banks were structured much like credit unions in Common Law economies, but engaged in a wider range of

[74] Nelson, 73-77.
[75] These *mons* generally charged 6% interest per annum to cover basic maintenance and pay a small staff on occasion, similar to the interest caps of extant usury laws in the U.S. in 1900. John T. Noonan, *The Scholastic Analysis of Usury* (Cambridge: Harvard University Press, 1957), 295.
[76] Robinson and Nugent, 23-25.

loan sizes than any bank Morris had seen prior. He called these banks "*Gunachtsenachopin*," (sic) but I will refer to them as community banks from now on. On the matter of collection, Morris observed that these banks had "no capital stock, no savings features, no installment features, and [assurance of repayment] was all done on a community of endorsements."[77] These banks typically provided small loans for tradesmen or small business owners to invest in equipment, space, or other relevant commodities to their trade. To gauge risk, the banker simply asked around, gathering between five and ten men to vouch for the borrower's character before coming to a decision.[78] These banks also focused on commercial loans, and did not appear to provide loans for emergency expenditures or luxury goods. The Morris Plan lent for all of these expenditures from its earliest days, though the company prioritized emergency expenditures. Morris banks employed stricter criteria of assessment, legally compelling cosigners assume responsibility of defaulted loans, but allowed loans for a wider range of expenditures. These tangible but limited solutions to poor credit access often fell short of truly popular credit in large part because of the conservative intellectual traditions on lending seen in Catholic and later Protestant thought.

In the vein of Smith, early English criticism of usury laws emerged in the latter decades of the 18th century with its most prominent opponents being Adam Smith, William Blackstone, and Jeremy Bentham.[79] Blackstone provided the most pragmatic explanation, and the position advocated by the Russell Sage Foundation. The legal scholar claimed that the absence of a legal means of credit for the poor deprived them of an essential service. Thus, the role of small money

[77] Interview with Edward Thomas, 31.
[78] Ibid, 31-33.
[79] Adam Smith's proscription for credit liberalization is rather modest, merely suggesting that extant usury laws in Britain impeded a credit market, and needed raising. He does not argue for total abolishment like Bentham. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Petersfield, UK: Harriman House, 2007) 228-230.

lender fell to criminals, "bad men," to use Blackstone's blunt language, who both exploited the poor and protected themselves from the civic fines of their trade by charging massive interest rates.[80] Bentham agreed with this diagnosis and his prescription for the problem was simple and radical, total abolishment of all extant usury laws.[81] He argued that it was absurd and counterproductive to hinder "men of ripe years, sound mind, acting freely, and with his eyes open, with a view of his own advantage, from making such bargain, in the way of obtaining money, as he thinks fit…"[82]

The tacit conservative response to Bentham was that the poor are not of sound mind. The success manual literature covered much of this position, but suffice to say that opponents to credit liberalization saw the borrower and/or the creditor as morally irresponsible. Even if one accepts the Calvinist notion that lending is bad, but tolerable, the total abolishment of usury laws offended Progressives and conservatives alike.[83] Britain liberalized their laws in the 1850s, with U.S. states lagging behind by seventy years on average. Despite this conservative legal environment, American advocates of either non-profit lending or credit liberalization propagated across American cities. The most prominent is the Russell Sage Foundation of New York.

[80] Blackstone, 456-457; Jeremy Bentham, "Defense of Usury: Shewing the Impolicy of Present Legal Restraints on the Terms of the Pecuniary Bargain Pecuniary Bargains," Letter IX, 84-85.
[81] Bentham's tract retained its relevance during the Russell Sage period, with two Russell Sage economists calling his libertarian position irresponsible in 1935. They also use "Benthamite" as a close synonym for a laissez-faire capitalism that they reject. Robinson and Nugent, 29, 270-271.
[82] Bentham, Letter I-II.
[83] Robinson and Nugent, 270-271.

CHAPTER 4

REMEDIAL LENDERS: THE LIMITS OF NON-PROFIT LENDING

The Russell Sage Foundation emerged in 1906 as the philanthropic enterprise of Margaret Olivia Slocum Sage. Widow of Russell Sage, a financier and politician perhaps best remembered as a close associate of the robber baron Jay Gould, she inherited the entirety of his fortune with complete control over its use. Within a year of Russell's death in 1906, she founded the Russell Sage Foundation in New York City to both study and alleviate the social ailments affecting rapidly industrializing cities.[84] More ambitious than a modern activist think tank, Sage envisioned the Foundation as both a charity and an educational institution for other philanthropists and activists. Taking advantage of the growing trend of professionalization and specialization in the country's leading universities, she enlisted experts to both explore the causes of societal problems and offer tangible policy solutions as well as temporary private schemes to alleviate the corresponding problem in the short term. She divided the organization into various divisions dedicated to studying specific problems like public sanitation and criminal exploitation of the poor. In regards to credit and lending, the department was the "Division of Remedial Loans," led by a young Columbia PhD named Arthur H. Ham, who also served as the President of an organization

[84] Olivia Sage rooted her philanthropic endeavors in a gender essentialist understanding of women. While the home should remain the primary occupation of most women, she obligates those of means to engage in charity and serve as agents for moral progress once she no longer has dependents. This was her justification for leading the Foundation. While not an unusual stance for a women's activist of her time, she does make exceptions for "genius" as a means of escaping the domestic sphere. She argues that the utilitarian benefit to civilization brought by rare exceptionally gifted women in either the arts or sciences outweighs the cost they bring by not raising families. Mrs. Russell Sage (Olivia Sage), "Opportunities and Responsibilities of Leisured Women," *The North American Review*. 181, no.588 (Nov. 1905): 712.

of non-profit lenders known as the National Federation of Remedial Loan Associations, becoming well known among Morris company operators.[85]

Individual states set their own legal caps on the rates of interest for loans. And these caps were low, typically falling between 5% and 8% for loans of any value.[86] These rates made small loans unprofitable, or so standard practice determined.[87] Thus, the Division of Remedial Loans lent money at the New York State legal maximum interest rate of 6% per year with the expectation that defaults and administrative costs would outpace revenue. While the Morris Bankers broke ground in addressing the lack of access to credit through profitable ventures, they explicitly opposed the motivations behind traditional charitable attempts like the Sage Foundation. Morris Bankers claimed that the notion of giving working men of solid character a loan as a charitable act insulted their dignity as men.[88] The proper course of action was to provide them a viable business alternative, as they were perfectly capable of such responsibility. However, both agreed on the *necessity* of credit access for the working class in the modern economy because it provided workers with the financial resources necessary for a safe and comfortable life.[89]

Like most Progressives, Ham saw legislation as the means to tackling society's ills. Ham viewed the Division of Remedial Loans as a tactic in a longer strategy to liberalize credit markets

[85] Ham supported Morris Plan unlike more conservative remedial lenders who saw them as cheats, though he did not think it could scale operating within the strict legal confines of the 1910s. Hyman, 17; "Morris Plan Attacked Harshly: Remedial Loan Association Members Think System is a Very Bad One" *Morris Plan Bulletin* 2, no. 7 (1916), 121; Interview with Edward Thomas, 182-183. Found in the Arthur J. Morris Papers, Box 7, Manuscript Division, Library of Congress, Washington, D.C.
[86] In Georgia, the legal cap on all interest rates fell on the high end of 8% in 1910, and remained the case until credit liberalization in 1920. O.C.G.A. §3436 (1910). In New York, it is 6%.
[87] Morris Plan Bankers Association, *Banking on Character for a Quarter Century*.
[88] "Where Character Counts," *Thrift* 1, no.1 (1918). Found in the Arthur J. Morris Papers, Box 8, Manuscript Division, Library of Congress, Washington, D.C.
[89] *The Morris Plan of Industrial Loans and Investments* (1915): 18-20.

through legislation.[90] Usury laws varied by state, and credit reformers first tried to supersede them by lobbying for a federal bill. This campaign at the federal level failed, as opposing members of Congress defended existing usury laws as barriers against the legalization of what they considered a morally bankrupt profession.[91] Advocates of credit liberalization then sought the passage of Uniform Small Loan Laws. This generic label came to designate a series of state laws proposed in the first three decades of the twentieth century, where they found more success.[92] These proposed laws generally set distinct interest rates, around 18%, for loans less than $300. While not designed to pay for a meal for example, they might work for expenditures like a medical procedure, buying food over an extended period of time, or paying off an extant, higher interest, loan. New York passed the first Uniform Small Loan Law in 1911.[93] Ham never intended his division to continue indefinitely, as he believed that the liberalization of the credit market would make charitable lending obsolete.[94] In addition to this work, he served on the board of the Provident Loan Society, a remedial lender that still operates as a non-profit pawnshop in New York City.[95] As late as 1940, the Foundation continued to advocate for modifications to small loan laws at a state-by-state level.[96]

[90] Despite Ham's complaints that industrial workers did not receive sufficient wages to maintain a decent standard of living, which necessitated borrowing, he did not appear to advocate for increase in wages. Ham, *Remedial Lending: A Constructive Program*, 6.
[91] Ham, *Remedial Loans: A Constructive Program*, 3.
[92] Louis N. Robinson, "The Morris Plan." *The American Economic Review* 21, no. 2 (1931): 222-35.
[93] Maine was a rare example of state that lacked strict usury laws, but the New York law marked the first victory for this group of advocates for credit liberalization. Sharks in New York often listed Portland, Maine as their business address for this reason. It was popularly known as the "Portland Device" or "Portland Method." Fleming, 23-26.
[94] The division still existed in 1923, though Ham had changed positions within the Foundation. The opening pages of this book essentially amount to recounting his own victory lap. Arthur H. Ham, and Leonard G. Robinson, *A Credit Union Primer* (New York: Russell Sage Foundation Division of Remedial Loans, 1923).
[95] Interview with Edward Thomas, 183.
[96] At this point, a few states, such as South Carolina, still had maximum interest rates on par with those seen in nineteenth century usury laws. LeBaron Foster, *Small Loan Laws in the United States* (Newton, Massachusetts: Pollak Foundation for Economic Research, 1940), 3-4.

These resilient laws serve as one of the primary causes of the Morris Bank's existence. Not only did Morris need to design the whole business within these strict legal confines, but these laws kept other bankers from even approaching that customer base. An inheritance of the British, who largely abandoned similar laws in the 1850s, usury laws varied state by state. Often, these laws were blatantly ignored by black market lenders, with loan sharks outside of major urban centers sometimes advertising their services in newspapers.[97] But a legitimate bank had no use in such activity for several reasons. An 8% yearly interest rate might make a multi-thousand-dollar loan for a business venture worthwhile assuming that the bank employed a decent Dun agent. But for a small loan, such interest rates produce minimal returns in the ideal case. In reality these loans could not make money in a regular bank. For one thing, banks had to interview an applicant with a paid employee whose job was risk assessment. Or they had a Dun agent do it. And then they took a serious risk, giving the money to one person. Maybe the debt transfers to a relative in the case of default, but the long duration of such loans made avoiding creditors doable and the new debtor probably had little intention to pay their relative's debt. Even modest default rates, assuming that interest even covered the standard cost of assessing a borrower, led to a loss.

Remedial lending associations emerge in the latter 19th century to provide non-profit credit access to workers while remaining within strict state limits. Many of them were non-profit pawnshops similar to the *mons* of Italy, while others gave out cash or certificate based loans.[98] The first of which in the Russell Sage's view was the Collateral Loan Society, founded in Boston

[97] W.W. Mundy, "Money To Loan," *Cedartown Standard* (Polk County, GA) Aug. 13, 1903.
[98] In some cases, charitable pawnshops lent money with interest rates as low as 2% per annum, essentially nothing. Calder, 38.

in 1857.[99] Similar societies arose in the largest U.S. cities in the next six decades, enough to garner the support of Foundation wonks. In a 1907 case study, the Foundation determined that the Baltimore-based Chattel Loan Association of Baltimore that they processed 9,000 loans between 1897 and 1907.[100] By 1909, a small National Federation of Remedial Loan Associations formed with a modest membership of eleven organizations.[101] Never a rousing success, the Federation peaked in 1915 with forty members, and had only twenty five in 1933 after two decades of stagnation punctuated by rapid declines.[102] While the Sage Foundation was generally receptive to these institutions, Olivia Sage's wariness of supporting institutions probably played a role in the Foundation withholding funds from them. Sage herself advocated supporting individuals whenever practical, an approach the Morris Bank replicated.[103] This is certainly true. However, the Foundation argued that while these societies were moral, they lacked the potential to remedy the harm caused by illegal lenders, claiming individual loan offices lack the capital necessary to make headway in a city's economy.[104] For their part, The National Federation of Remedial Loan Associations did not see the Morris Plan as the future. Ham, serving as the Association President in 1916, reported several of his associates supporting an internal statement calling the Plan "a sinister system to get 18 per cent interests on loans under a pretense that only eight per cent interest is paid."[105] Regardless, these remedial lenders failed to have the impact of

[99] The Division of Remedial Loans was its original name. In 1924, they changed their name to the Department of Remedial Loans. They are the synonymous and used interchangeably throughout the paper. Robinson and Nugent, 57, 87.
[100] Ham, *The Chattel Loan Business*, 36.
[101] Robinson and Nugent, 84.
[102] Most remedial lenders died quiet deaths by 1935, as credit access expanded even as the economy languished in the Depression. Remarkably one such lender, The Provident Loan Society founded in New York City in 1896, still exists and pitches itself as a non-profit collateral lender. Robinson and Nugent 146-147; https://providentloan.com/en/
[103] Robinson and Nugent, 85.
[104] Ibid., 143-144.
[105] It is not clear if Ham sympathized with this position. Considering Morris' personal affinity toward him, it seems unlikely. "Morris Plan Attacked Harshly, 121; Interview with Edward Thomas, 182-183.

the Morris Bank both because there were too few of them but also because they failed to establish any kind of regional institutional presence. There was no chain of remedial lenders that shared capital and adhered to a central managing entity like Morris' Industrial Finance Corporation.[106]

These remedial lenders also lacked a profit motive, dooming them to a marginal status that both Morris and the Sage Foundation understood. While not an enduring solution, the Sage Foundation understood these institutions as valuable charitable actors and thus created their own through the Division of Remedial Loans, which also housed wonks dedicated to credit liberalization. In short, they saw remedial lending as a Band-Aid, a means to help a fraction of at-risk workers from falling into loan-shark debt.

The Morris Plan occupied an odd place in the transition from remedial lenders to the far riskier and profitable creditors of the 1920s in its inconsistent moral image; though it was essentially a business. Morris Plan Bankers broke ground in addressing the lack of access to credit through profitable ventures, they explicitly opposed the motivations behind traditional charitable attempts like the Sage Foundation when pitching to their customers. Morris Bankers claimed the notion of giving working men of solid character a loan as a charitable act insulted their dignity as men. The proper course of action was to provide them a viable business alternative as they were perfectly capable of such responsibility.

[106] It warrants mention that there is a wider intellectual community discussing issues in the small loan market outside the Russell Sage Foundation. One of the other authors discussed, LeBaron Foster of the Pollak Foundation for Economic Research, wrote a glowing review of Robinson and Nugent's monograph. LeBaron R. Foster, "Reviewed Work: Regulation of the Small Loan Business. by Louis N. Robinson, Rolf Nugent," *Journal of the American Statistical Association* 30, no. 192 (1935): 766-68.

CHAPTER 5

THE ORIGINS OF THE BANK IN NORFOLK

The context surrounding the initial establishment of the bank in Norfolk, Virginia provides a dynamic lens into the philosophy and operating strategy of the early Morris Plan as well as the shape of banking for even the most prosperous working-class debtors in 1910. As stated previously, Morris falsely claimed that 80% of Americans lacked access to credit, but he was correct to diagnose the banking sector as peculiarly exclusive.[107] This exclusive model created a niche for medium size loans that a pawnbroker could not offer, making an ecosystem for sharks to flourish. Morris' initial venture filled that wide grey area between large bank loans and small pawn loans, providing a brief lens into the precarious financial lives of working men who found relief in the Morris Plan.

Morris was born in Tarboro, North Carolina in 1881, but his family relocated to Virginia at some point in his childhood and he identified as a Virginian for his entire adult life. A solidly middle-class upbringing, his brother entered the banking sector as well and his parents sent him to Charlottesville for college.[108] He attended the University of Virginia and developed a life-long affection for the school, earning a bachelor's and eventually a law degree in 1901.[109] Blending his family lineages, he specialized in finance law, representing several Norfolk banks by 1905,

[107] Interview with Edward Thomas, 16.
[108] He rarely spoke of his father, who he seemed to have a tense relationship with. Morris brought up his career shift and especially his Republican sympathies as serious points of contention. But he adored his mother, and frequently bragged about her supposed acquaintance with Teddy Roosevelt, who he claimed called her "the most brilliant woman he had ever met." Regardless if that is true, the fact that they met suggests some degree of familial wealth. Ibid, 18, 63-65, 206-210.
[109] Arthur J. Morris, "Fifty Years Creating and Developing the Morris Plan System of Consumer Banking," (Speech. The Consumer Bankers Association, San Francisco, CA, Oct. 25, 1956).

and exhibited an interest in banking beyond the merely professional. Despite his shift to the banking profession, he rarely missed an opportunity to clarify that he was, in fact, a very good lawyer, even turning down an apparently excellent job in New York as he worked on the initial Morris Plan.[110] Seemingly straight out of law school, he co-founded the firm Morris, Garnett, and Cotton and remained an active partner until at least 1919.[111] By his own account, he became interested in alternative banking models present in Europe, particularly the German community banks. Sometime between 1905 and 1909, he took an extended to trip to Germany with the intent to study these banks, convincing himself of the viability of small money bank lending.

While the Morris Plan was the result of several years of study and financial preparation, he repeatedly pointed to a single event as the motivating spark in the project that spoke to the Morris Plan's moral image. Sometime between 1905 and 1906, a young, desperate, clerk for Norfolk and Western railroad entered the law firm asking Morris for advice on procuring a loan. The clerk's wife required a life-saving operation that cost around $300. Confused, he asked the man why he did not procure an advance from a bank if he was gainfully employed and earning $210 a month. Being an insufficient amount of money to safely take a profit, the bank refused to loan the money to a man without collateral who was not an account holder in the bank. Confident in the man's character and earning power, Morris agreed to lend him the money out of pocket and secured rapid treatment for the woman by paying the doctor immediately. Morris got his money back, and claimed then and there to set about constructing a business that lent money to alleviate similar crises for working men of character.[112]

[110] Interview with Edward Thomas, 28.
[111] He attributed his near-fatal bout of the Spanish flu to holding positions in the bank and the firm. At the nadir of his self-preservation, he claimed to drink twenty cups of coffee and fifteen sodas a day in addition to a managing a sub-par sleeping schedule. Ibid, 58.
[112] Ibid, 7-13.

A heterodox notion in American banking, the Morris bank had a first year that showed that working men could in fact handle a year-long loan. Success did not demonstrate that the Morris Plan had the potential to scale however; Morris needed to inject his own funds into the project to keep it running. As Morris and the company loved to remind anyone who would listen, other bankers did not view this upstart small money lender with much confidence, and did not invest in its establishment even if they sent Morris their best wishes.[113] This standard entrepreneurial origin story shrouds the fact that he did manage to scrape together $10,000 for a bank he called the Fidelity Savings and Trust Company, a name he believed spoke to his trust in the people's character.[114] Still, $10,000 was not enough to initiate the Morris Plan and he decided to go for broke on his dream project. Frustrated but confident, Morris put down $10,000 of his own money to launch the initial Morris Plan branch, giving the first Morris Bank a modest $20,000 capital store to conduct business. This would not be the first time he invested massive quantities of his own money into Fidelity Savings and Trust.[115]

As Morris predicted, the bank had little trouble getting customers, estimating that the branch lent out $100,000 in loans in the first five years of the Norfolk branch alone. Their paltry $20,000 capital stock did not suffice for such a high volume of loans, and the upstart banker mortgaged both his house and life insurance policies to keep up with demand. Aside from the palpable irony of taking out loans to administer loans, Morris tied himself to the mast of his ship,

[113] Morris Plan Bankers Association, *Banking on Character for a Quarter Century: Silver Anniversary, 1910-1935* (New York: Morris Plan Bankers Association, 1935).
[114] According to Morris, changing the concept's name to "the Morris Plan" was not his idea. He thought that the name did not speak to the service providing and might confuse potential customers. In other words, it was bad marketing. But he eventually relented to pressure and adopted the name. Interview with Edward Thomas, 99.
[115] Morris managed to procure the modest support of some interesting businessmen, including the cotton wholesaler Fergus Reid and the local manager of the Anheuser Busch facility. Morris appeared to have no issue with inviting none-bankers into positions of substantial power, as both W. Woods White and T.R. Sawtell, the first two long-term presidents of the Atlanta branch, made their fortunes in insurance and beef respectively. Ibid., 37-38; Stock Raising in Georgia." *Cedartown Standard*. Mar. 15, 1903; "The Northwestern Mutual Insurance Company," The *Atlanta Georgian*, Jan 31, 1911.

and that confidence probably helped convince his many associates of its stability. As the bank enjoyed its earliest successes in Norfolk, Morris employed and consulted more experienced bankers to refine the business, presumably through his legal connections. These bankers did not see the Morris Plan as a potential competitor in its fledgling state, as the Plan's focus on small money lending convinced them that they served distinct clienteles for distinct purposes.[116] He also left Norfolk around the time of the creation of the Industrial Finance Corporation, moving to helm the New York branch of the company that opened on December 31, 1914.[117]

Though a business first and foremost, the Bank had a close association with chartable ventures and rhetoric that endeared them to the public and the media. This is not to accuse them of cynical manipulation; Morris made sustained efforts to enlist men with a history of philanthropic activity into his company. One representative example is W. Woods White, an Iowa-born insurance executive and active leader in the Atlanta Metro YMCA, to helm the first wildly successful Morris Bank in Atlanta. White fit into an emergent southern charitable class that popped up in the few industrializing southern cities. Like many "New South" elites, he moved from the North to earn his fortune, remained committed to Christian charitable organizations, and saw himself as racially progressive.[118] He and his wife, Sina Lee Harris White, cut out such a place in the Atlanta elite that Sina Lee White accompanied Theodore Roosevelt during his extravagant visit to the city shortly before the opening of the Morris

[116] Morris contradicted himself in the interview on this issue, claiming that commercial bankers typically viewed the Morris Plan as a threat. Most likely, he relied on the network established during his tenure as a finance lawyer for supportive advice. Bankers outside that network probably viewed him as an interloper in their market. Interview with Ibid., 38-40, 179.

[117] A company report claimed that Morris saw New York as the ideal market for the Morris Bank to be the most successful and do the most good for borrowers. Whether Morris believed this is unclear, but it stands to say that New York offered more profits than humble Norfolk. *The Morris Plan of Industrial Loans and Investments* (1915): 59.

[118] "Men of the Hour: W. Woods White." *Southern World*, Nov.1, 1883; Don Doyle, *New Men, New Cities, New South: Atlanta, Nashville, Charleston, Mobile, 1860-1910* (Chapel Hill: University of North Carolina Press, 1990), 213-220.

Bank.[119] While interested in Protestant charity and missionizing work generally, White made a name for himself in his peculiarly dedicated pursuit of the Gate City's loan shark problem.[120]

The apparent inadequacies of non-profit responses to loan sharking drove White to a profitable solution, leading him to sign up with Morris. White earned a reputation as a dedicated advocate against Georgia's illegal lenders dating back about a decade. Active in the YMCA since the 1880s at the latest, White cut his teeth in business working for Northwestern Mutual while growing more interested in the plight of Atlanta's growing working class. His most famous accomplishment was a widely covered grand jury investigation into the Gate City's illicit lenders.[121] He also lobbied for city and state regulations requiring more comprehensive record keeping, as lack of evidence often made prosecuting loan sharks impossible.[122] Like the Sage Foundation, he grew disillusioned with the prospect of ending the black market on credit and instead turned to promoting a profitable alternative. In his understanding, the legal ecosystem of Georgia did not exclude a market solution. Unlike the Sage Foundation, he did not see the solution in credit liberalization, but in the Morris Plan.[123]

[119] "This is Day when City Bids Welcome to Col. Roosevelt," *The Atlanta Georgian,* Oct. 8, 1910.
[120] White was a strange man in many respects. At their initial meeting, Morris claimed White burst into tears after hearing the idea from Morris, claiming God sent him to Atlanta to fight the loan shark problem. Overcome with emotion, White demanded that Morris explain the Plan again and again, going so far as to follow Morris to his hotel room after the Virginian lawyers repeated pleas to retire for the evening. He also appeared, unfortunately, to have entrenched anti-Semitic proclivities, distributing those previously mentioned pamphlets with a hooked nosed loan shark on the cover. Interview with Edward Thomas, 44-48; The Atlanta Loan And Savings Company, *The Anti-Loan Shark Bank.*
[121] Ibid., 45-46, "Told Story of Interest; Ate Up All Her Wages," *The Atlanta Constitution*, Nov. 9, 1903.
[122] "Heavy Hand on Loan Agencies," *The Macon Telegraph*, July, 22, 1904.
[123] In Georgia, the legal cap on all interest rates was 8% per annum in 1910, and remained the case until credit liberalization in 1920. O.C.G.A. §3436 (1910).

CHAPTER 6

THE BANK BREAKS GROUND IN ATLANTA

The Atlanta branch provides a representative example of the Morris Plan's image and potential, a company that took full advantage of the demand and public image of money lending with a sustained public relations campaign and an even more developed strategy of risk aversion. Morris and White met in person sometime before June of 1914, having met prior to the opening of the Atlanta branch in June of 1911.[124] While the cosigner model common to all branches assured near-total return rates, White enacted even more precautions with the implementation of character questionnaires. Unlike most branches, the Atlanta branch started off with a largely volunteer workforce that made administering these questionnaires almost free. These questionnaires did not appear to become standard practice as the rapid adoption of paid staff threatened the delicate ratio of the Morris Plan. However, they speak to a method of tinkering that White indulged in and tried to spread to emergent branches as well as Morris' faith in the discretion of his subordinates.

The Industrial Finance Corporation emerged in 1914 to expedite the sharing of capital and standardize operation, but prospective bank executives looked to White prior to starting their own Morris Companies with Arthur Morris' approval. One such acolyte arrived from Baltimore in December of 1911, opening "The Mutual Loan Company" in February of 1912.[125] A second group from Memphis visited in February of 1912 and founded a branch in their home city by

[124] "$7,000,000 Company to Fight Loan Sharks," *Th c ssde Atlanta Constitution,* June, 11, 1914.
[125] "Baltimore Follows Example of Atlanta," *The Atlanta Georgian,* Dec. 14, 1911; "Anti-Loan Shark Bank Doubles Capital Stock," *The Athens Banner,* Dec. 14, 1911; *The Morris Plan of Industrial Loans and Investments,* 27.

1915.[126] While the Industrial Finance Corporation formalized interaction between branches, informal means of connection existed and led to the establishment of several branches. Slightly after the founding of the Memphis branch, the Industrial Finance Corporation had twenty-two branches with about 77,000 customers, with a yearly profit margin of 7.8%. The value of their extant loans is just shy of $9,000,000.[127] By 1917, they opened branches in San Francisco and Los Angeles, making them a transnational phenomenon prior to the consumer credit boom of the 1920s.[128]

White also made use of a private stock option to rope in the capital needed to expand operations while providing reliable compensation for the board, and did so with much more success than the Norfolk branch.[129] The first year of the bank showed both the potential of the model for replication across the country and its preferred public image. Opening its doors on 533 Chandler Street, the Atlanta branch enjoyed the fanfare of the papers, where the Norfolk branch did not appear to make the same splash.[130] They also had over twice the starting capital, $50,000.[131] In its first six months of operation, it provided 540 loans averaging $125. At this early stage, the papers took to calling it the "anti-loan shark bank," an image White leaned into with his reliable media presence.[132] By March of 1913, the bank had expanded to over 2,000 borrowers and lent about $288,000, with a spokesman bragging about their success. On the

[126] "To Lessen Bankruptcy: Atlanta Wholesalers Organize to Cut Out Retailers' Bankruptcies," *The Athens Banner,* Feb. 8, 1911; *Morris Plan of Industrial Loans and Investments*, 73.
[127] Ibid., 33, 40-41.
[128] The most recent available source from that branch appears to be a manager's report to shareholders from January of 1920, which referenced the company opening twenty-eight months prior. W.H. Workman Jr. *The Los Angeles Morris Plan Company Manager's Report to the Stockholders* (Los Angeles: The Los Angeles Morris Plan Company, 1920); The Morris Plan Company of San Francisco, *How to Borrow Money in Small Amounts* (1916).
[129] Walter Prichard Eaton, "A Poor Man's Bank: How Atlanta is Fighting the Loan Sharks by Lending Money on the Security of Labor," *The American Magazine*, New York, Feb. 1914, 71-75.
[130] This street does not exist anymore. They moved their address to Peachtree Street in the 1920s. "Hard Luck Victims Throng New Anti-Loan Shark Bank," *The Atlanta Georgian*, June, 20, 1911.
[131] *The Morris Plan of Industrial Loans and Investments* (1915): 25.
[132] "Anti-Loan Shark Bank Doubles Capital Stock," *The Atlanta Georgian,* Nov. 24, 1911.

topics of defaults and interest he described the bank's performance; "its losses few and its earnings without usury."[133]

While the solvency of the model was obviously a necessary condition for endurance, the enlistment of investors was essential to expansion. While procuring investors remained a challenge, the Atlanta branch ran out of capital for lending to viable customers in its first year, they managed to expand from 540 to 2,000 active borrowers by 1913.[134] While the bank continued to grow as its regional spread indicates, this early shortage does speak to a serious limitation of the model, its marginal profitability.[135] They marketed the stock option on moralistic grounds to potential investors interested in a reliable low return that assuaged their conscience. Returns were modest, but they were consistent and went to the good cause of providing responsible men credit.[136]

The hagiographic depiction of the bank in the Atlanta Press disguised the fact that the bank had critics of its formal model as well.[137] Morris Bank advertisements and company materials conspicuously mention proving early skeptics wrong, more moralistic opponents pointed out that these lenders actually drew a greater profit than the 8% per annum interest advertised in newspapers.[138] Commission fees allowed them to squeeze about 2% more interest each time the borrower paid an installment on the loan, meaning they paid this fee fifty times

[133] "Loan and Savings Company Saves Thousands," *The Athens Banner*, Mar. 4, 1913; "Loans for Unfortunate Not Enough to Meet Demand," *The Atlanta Georgian,* Dec. 12, 1911.
[134] "Loans for Unfortunate Not Enough to Meet Demand," *The Atlanta Georgian,* Dec. 12, 1911.
[135] Interview with Edward Thomas, 143.
[136] Morris Plan Bankers Association, *Banking on Character for a Quarter Century*; Arthur Morris, "Enlargement of the Scope of the Morris Banking System: Strong Financial Backing to Save the Small Borrower From the Loan Shark," *Bankers Home Magazine,* Feb., 1915, 23-25. Found in the Arthur J. Morris Papers, Box 17, Manuscript Division, Library of Congress, Washington, D.C.
[137] At its national convention in 1916, The National Federation of Remedial Loan Associations agreed that the Morris Bank did not serve as an adequate solution to the problem of loan sharks, and chastised the company for indulging in the media's image as the "anti-loan shark bank." Robinson and Nugent, 155.
[138] Herzog 102-104; Fleming, 53.

over the course of a standard loan.[139] Over a standard year-long loan paid in weekly installments, the bank actually charged a figure closer to 18%. This was in fact the value Ham thought was reasonable for legal small money lending, and the Sage Foundation did not seem bothered by this.[140] This practice was typically illegal prior to credit liberalization, as states often equated commission fees like this with interest. It is also unlikely that the moralistic White allowed such a practice even after credit liberalization in 1920.[141] Ultimately, it is unclear when this practice entered common use. In 1928, the economist Peter Herzog's book on the Plan did not suggest that it is a common occurrence. However, in 1931, the economist Louis Robinson complained of this phenomenon as did several members of the Remedial Lenders Association in 1917.[142]

Herzog points to another tactic of the bank that drew the ire of some moralists, though he seems rather *blasé* on the practice. Since the borrower paid the loan back in weekly installments, the bank could loan out that money to another customer.[143] In effect, this allowed the Morris Bank to profit from a loan as it came in by giving it to another borrower. While moralists saw this practice as predatory by forcing borrowers to set aside $2 a week to pay off the lender, Herzog viewed this practice as necessary for solvency as it ensured reliable payments and increased the capital available for more loans.[144] While not remedial lenders, Morris Banks had a practice that smacked of skepticism of the borrower, as the bank felt the need to have constant reassurance of the borrower's presence. If they skipped a single payment, they could feasibly

[139] Robinson, "The Morris Plan," 223; Fleming, 53.
[140] Robinson estimates the average annual interest rate at a Morris Bank in 1934 is 19. 2%. Fleming puts the figure at 18%. Robinson, 222; Fleming, 53.
[141] White retired from his position as president in 1927, shortly before his death. "W. Woods White Dies At Residence," *The Atlanta Constitution*, Dec. 23, 1927.
[142] They call it the "Industrial Insurance Plan," and was only a proposal in 1915. *The Morris Plan of Industrial Loans and Investments*, 35.
[143] In the *Morris Plan Bulletin*, the company emphasized the importance of keeping loans "*liquid."* Weekly interaction with the customer facilitated this profitable policy. "Personal Contact in Morris Plan Loans," *Morris Plan Bulletin* 2, no. 1 (1917): 35. The Atlanta Loan and Savings Company, *The Anti-Loan Shark Bank: Operating the Morris Plan*.
[144] Herzog, 105-107.

find the cosigners or the borrower before they all disappeared. For example, the D.C. branch lent out $750,000 to over four thousand people in its first two years of operation at the loss of only $60 from a single loan.[145]

Ultimately, it is unclear how the Morris Plan board in Atlanta thought about credit liberalization, as such laws might invalidate their business model. At an official level, the Industrial Finance Corporation remained tight-lipped on the issue. The economist Louis Robinson criticizes the Morris Bankers for not advocating for liberal credit laws in 1931. Morris himself developed into a staunch Republican by end of the Depression after decades of right-leaning centrism, becoming a fierce opponent of the any Federal regulations of the financial sector well into the Eisenhower administration.[146] However, nothing suggests that Morris and White, or even Ham, predicted the shape of the consumer credit revolution to come. More likely, Morris probably saw credit liberalization as an opportunity for greater profitability in the 1910s and the 1920s no doubt convinced him further. Ham saw credit liberalization as the means for workers to incur emergency expenditures without sinking into a quagmire of interest payments by providing access to credit at costly but reasonable rates.[147]

Another source of the Plan's long-term significance came in the form of the increased competition it faced in the 1930s, when more traditional banks started to focus on small money lending. Due to the widespread economic misery brought forth by the Depression, suffered from

[145] *Morris Plan of Industrial Loans and Investments*, 30, 48.
[146] Unsurprisingly, Morris grew up in a fiercely Democratic household, but wafted between Republican and Democratic leaning for much of his young adult life with a clear preference for the GOP. His first flirtations with the GOP in the 1900s earned him the ire of his father. Despite this general tendency with the GOP, he loved Al Smith of New York and initially supported the FDR administration in the immediate wake of the Depression. He eventually saw Roosevelt as a progenitor of the Johnson administration, whose "socialization" of the American economy infuriated him. Arthur J. Morris, "Address of Welcome," *United States Investor* 45, no. 35 (1934): 13; Interview with Edward Thomas, 181-182, 199-201, 218; Robinson 235; Hyman, 129.
[147]Arthur H. Ham, *The Campaign Against the Loan Shark* (New York: Russell Sage Foundation Division of Remedial Loans, 1912).

a downturn in loans lent to prospective businesspeople and investors. In order to stay in the black, or at least stay alive, banks started offering smaller loans at interest rates comparable to the Morris Plan.[148] These banks never got out of this business after this shift, and the entrenched expansion of Morris banks into other sectors blurred the lines between Plan banks and their competitors.

The features that made the Plan of the 1910s so unusual whittled away in the booming, liberalized twenties and the now proven viability of small money lending in the banking sector turned previously skeptical companies to Morris' competitors. By 1926, the total value of all Morris Banks was over $150 million, signaling tremendous success leading up to the Depression.[149] The Morris Plan never truly recovered from the impressively circumscribed losses it sustained in the Depression and banks continued to operate around the country well into the 1960s, when nine operated in midwestern states like Iowa alone.[150] To this day, there is one Morris Bank in operation in the small city of Terre Haute, Indiana. Ever the intrepid entrepreneur, Morris had long shifted his focus to the Morris Plan Insurance Society, while still remaining interested in the small money lending market that he pioneered and considered his greatest accomplishment.[151] Even as the credit market grew more anonymous and ubiquitous, he always maintained that character formed the basis of all credit transactions. The democratization of consumer credit served as the definitive proof to his optimism in the American character. The

[148] Interview with Edward Thomas, 134.
[149] The Morris Plan Corporation of America, *The Morris Plan of Industrial Banking* (New York: The Morris Plan Corporation of America, 1926).
[150] *The Morris Plan Company of Iowa: Annual Report 1965* (Cedar Rapids: The Morris Plan Company of the Iowa, 1965), found in the Arthur J. Morris Papers, Box 8, Manuscript Division, Library of Congress, Washington, D.C.
[151] He remained nominally active in Financial General Bankshares Inc., the corporate descendent of the Morris Plan Corporation of America established in 1925, until the end of his long life. The initial company was an insurance company designed to service Morris Banks. They changed their name sometime in the 1950s as they expanded to insure other businesses. Interview with Edward Thomas, 126; Financial General Bankshares Inc., "1970 Annual Report," (New York: Financial General Bankshares Inc., 1970).

mass adoption of charge cards, car loans, and mortgages from the ballooning middle class of the 1950s likely struck him as the propagation of prosperity that drove him to claim "I think… what we accomplished in the field of consumer credit is a great confirmation of Thomas Jefferson's ideal of democracy."[152]

[152] Interview with Edward Thomas, 218.

CHAPTER 7

THE CONSEQUENCES OF NORMALIZED WORKING-CLASS LENDING AND CLOSING REMARKS

The Morris Bank did not see itself as disciplining their working-class customers so much as making use of an already disciplined, but financially uneducated, customer base. In their understanding, most workers were irresponsible and incapable of assuming the responsibility of a loan. One need only look at the discrepancy between male and female customers of the bank to see that they had a confined view of safe investments. In Morris' view, this was fine since he falsely believed 80% of Americans had no access to consumer credit. If even a fraction of those people had the chops to handle a yearlong loan, his company had nothing to worry about.[153] They saw themselves as tapping into a vein so to speak. Morris had no interest in teaching workers to handle year-long financial transactions; he was interested in workers who *had been taught* thrift. Looking back to the Russell Sage Foundation, Ham believed that the rapid industrialization of the U.S. created a vast working class desperate for credit access in a few decades. By the time Morris founded his bank, more customers than he could possibly serve presumably existed, as their inability to keep up with capital demands in the early years suggested.[154] Morris did not need more financial subjects, at least in early years of his company. This does not contradict individual branches' efforts to discipline what customers they did trust, as their almost zero tolerance for default made this a reasonable precaution.

[153] It is not clear where he got that 80% figure, but he referred to it years apart, suggesting he did not merely make it up. Ibid, 15; "Fifty Years Creating and Developing the Morris Plan System of Consumer Banking."
[154] Anti-Loan Shark Bank Doubles Capital Stock," *The Athens Banner,* Dec. 14, 1911.

However, the Morris Planners embraced an inconsistency; the existence of more financial subjects served their long-term interests, but they exhibited extreme caution in accepting new customers. They relied on other "respectable" people of secure financial means to do that legwork, to show the Bank that the man asking for money was a safe bet. They took advantage of extant social networks where the wealthier cosigners could pressure the borrower to repay his weekly installments in full and on time.[155] This routine engagement in finance did resemble the disciplining of the subject, but once again it already focused on a somewhat disciplined subject. Those unemployed, drowning in debt, or otherwise in abject poverty found no place in the partial disciplining mechanism of these social networks. This dependence on reputation harkened back to earlier forms of credit assessment, what Craig Muldrew calls "the economy of obligation."[156]

Muldrew defines credit as both a monetary unit of valuation and, more importantly, as a signifier of one's trustworthiness as an individual.[157] The latter variable held an outsized role in the early modern English economy. Prior to the stabilization brought by the Bank of England and advancements in the legal code that allowed for effective litigation on financial transactions, interpersonal trust between business interlocutors played the central role in business transactions that necessitated the use of credit. While this emphasis on interpersonal trust sufficed in the geographically restricted economies of early English modernity, the growing frequency of long-distance business relationships by the turn of the seventeenth century required the implantation

[155] It did not appear that banks employed a standard practice of reaching out to these networks of patronage. Morris trusted the discretion of his employees when deciding the extent to which they should investigate a borrower beyond the two-reference requirement. Instead, employees and executives occasionally relied on their own social networks to confirm the character of a borrower. A common case, when medical emergencies drove customers to the bank, was to placate the doctor asking for payment. Arthur J. Morris, "Interviewing Applicants for Morris Plan Loans," *Morris Plan Bulletin* 1, no. 1 (1915). Found in the Arthur J. Morris Papers, Box 7, Manuscript Division, Library of Congress, Washington, D.C.

[156] Craig Muldrew, *The Economy of Obligation: The Culture of Credit and Social Relations in Early Modern England* (New York: St. Martin's Press, 1998), 7-8, 195, 199.

[157] Ibid., 3-6.

of more formalized means of establishing trustworthiness and addressing defaults. Doubt became an accepted ingredient of business transactions that the opportunity for litigation offset.[158] Morris' reliance on social networks resembles this early modern strategy more than the risk tolerant attitude of 20th century creditors.

By the mid-1920s, the Morris Plan no longer resembled its original shape as liberalized laws and over a decade of shifting leadership and corporate policies shaved off many of its anomalous features in favor of a more diverse and profitable model built around higher interest rates and expansion into business and home loans. To this end, the company resembled a more traditional bank, while still specializing in the small money loans that initially distinguished it from traditional banks. As early as 1919, a Chicago branch of the Morris Plan disseminated literature promoting its loans as the means to home ownership. One such pamphlet, rather ominously titled "How we bought Our home on Nothing-at-all To start with (sic)," purported to offer $400 loans for modest homes that would basically be paid off monthly like a standard mortgage.[159] There is a progression to this shift beyond liberalized credit laws, as branches expanded to business loans in areas like Massachusetts as early as 1917.[160]

By Morris's own account, these changes did not conflict with his original mission to democratize consumer credit or to place character evaluation at the center of his business model. He firmly believed in the harmony between a liberalized capitalist society and human flourishing. The constrained market of the 1910s failed to provide a necessary service for a morally self-respecting and materially sufficient life. The limited profitability of his unique

[158] Ibid., 195, 199.
[159] Eleanor G. Dougan, *How we bought Our home on Nothing-at-all To start with (sic)* (Chicago: The Industrial Finance Corporation, 1919).
[160] *The Merchant's Plans and the Morris Plan* (Malden, MA: The Industrial Finance Corporation, 1917); *Merchants! Increase Your Turnover and Your Profits by Using the Morris Plan of Retail Trade Acceptances* (New York: The Industrial Finance Corporation, 1919). Found in the Arthur J. Morris Papers, Box 8, Manuscript Division, Library of Congress, Washington, D.C.

company limited the extent of his reach, and the increased access to reasonable credit that came with liberalization more than compensated for increased interest rates. They were, admittedly, lower than the sharks that haunted Morris company literature. He took tremendous pride the initial incarnation of the Morris Plan, but welcomed the legal and economic changes that made its continued existence impossible. By the 1930s, traditional banks mimicked his strategy of smaller loans for poorer customers in order to survive the Depression, and establishment banking never returned to a myopic focus on large loans catered to their wealthy customers. Never a humble man, Morris overattributed these monumental changes to his Norfolk startup, embracing the moniker of "The Father of Consumer Credit" that appeared in media outlets in the years leading up to his death.[161]

These inconsistences speak to the peculiar character of the bank as a transitory institution in the history of consumer lending. Its reliance on the assumption of future income of working-class customers proved the viability of small money lending without portable security to other financial institutions. At the same time, it rejected a modern tolerance for risk, predicating its solvency on the near total absence of defaults. Future small money lenders adopted a more relaxed attitude toward the financial stability of their borrowers to the point where they basically lent to anyone with a pulse. Ultimately the Morris Bank innovated with its strategy to lend to a worker on the expectation of future earnings over a year long period as opposed to the short-term loans seen in pawnbroking. This is the primary question that the cosigners answered by their endorsement. Their confidence, in turn, allowed the Morris Plan to expand into the working class and broaden the field of viable bank customers.

[161] Bill Simbre, "The Father of the Personal Loan to Visit C.R. Next Week," *The Cedar Rapids Gazette*, Cedar Rapids, Iowa, Sept. 25, 1966, found in the Arthur J. Morris Papers, Box 8, Manuscript Division, Library of Congress, Washington, D.C.

Aside from the Plan's aforementioned role in expanding the potential customer pool of working-class borrowers for elite financial institutions, it alluded to a broader strand of Progressive Era activism that privileged greater economic agency as a means to improve living conditions. Much like the more famous industrialist Andrew Carnegie, Russell Sage's namesake institution rejected wealth redistribution and expansive social services as means to alleviate the plight of workers. Both the Sage Foundation and the Morris Bank argued that barriers to economic participation kept workers poor as opposed to insufficient pay or social welfare. In this view, the absence of legal credit services forced workers to turn to loan sharks who fleeced and exploited struggling workers as lenders of adequate character had no means of reaching these customers.[162] In one of the few secondary sources dedicated to the Morris Plan in recent decades, its author describe it as a market solution to the emergent deficiency of limited credit access among the growing urban working class that emerged "organically."[163] This is ahistorical. The Morris Bank was not "organic," but the result of a peculiar legal and cultural milieu where the law had not caught up to the newfound respectability of micro-lending. Respondent to this strictly defined market, Morris showed future creditors in the banking sector that lending to poor, if not a boon, at least produced a safe return.

[162] Both the Morris Bankers and the Russell Sage Foundation fail to address the pawnshop variable, exaggerating both the quantity and corrosive effects of loan sharks in working class communities. Ham, *The Campaign Against the Loan Shark*.
[163] Mushinski and Phillips, 121,122, 135, 136.

Figures

Figure 1: A pawnbroker in Norfolk. "Moses Glasser, Pawn Broker" *The Virginian Pilot*, Nov. 13, 1910. Found in the Library of Congress Newspaper and Current Periodical Division.

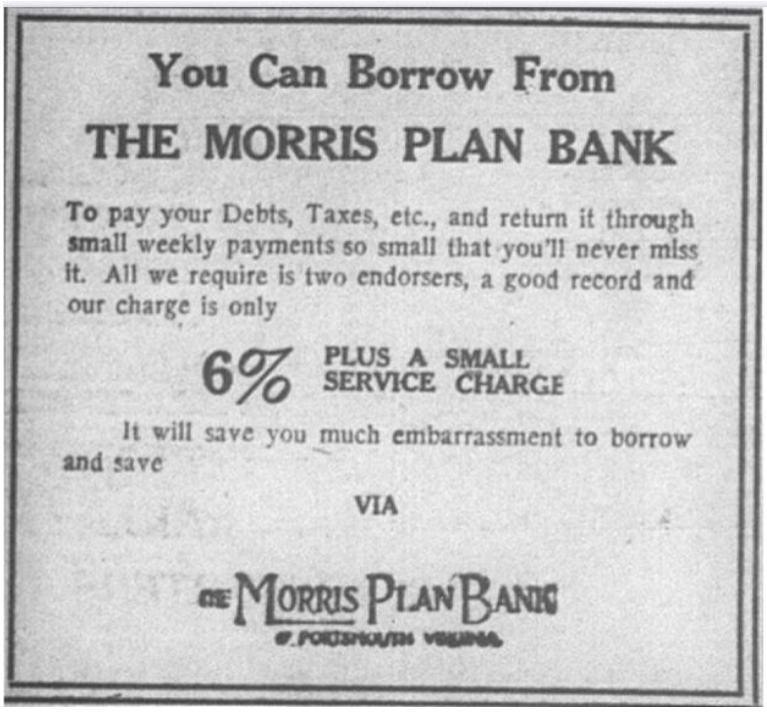

Figure 2: A modest and typical ad in Norfolk "You can Borrow From the Morris Plan Bank," *Virginian Pilot*, Jan. 5, 1929. Found in the Library of Congress Newspaper and Current Periodical Division.

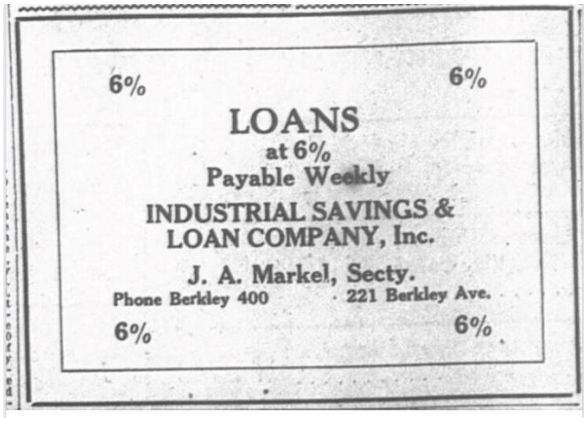

Figure 3: A copycat bank. "Loans at 6% Payable Weekly," *The Virginian Pilot*, May, 15, 1915.

Found in the Library of Congress Newspaper and Current Periodical Division.

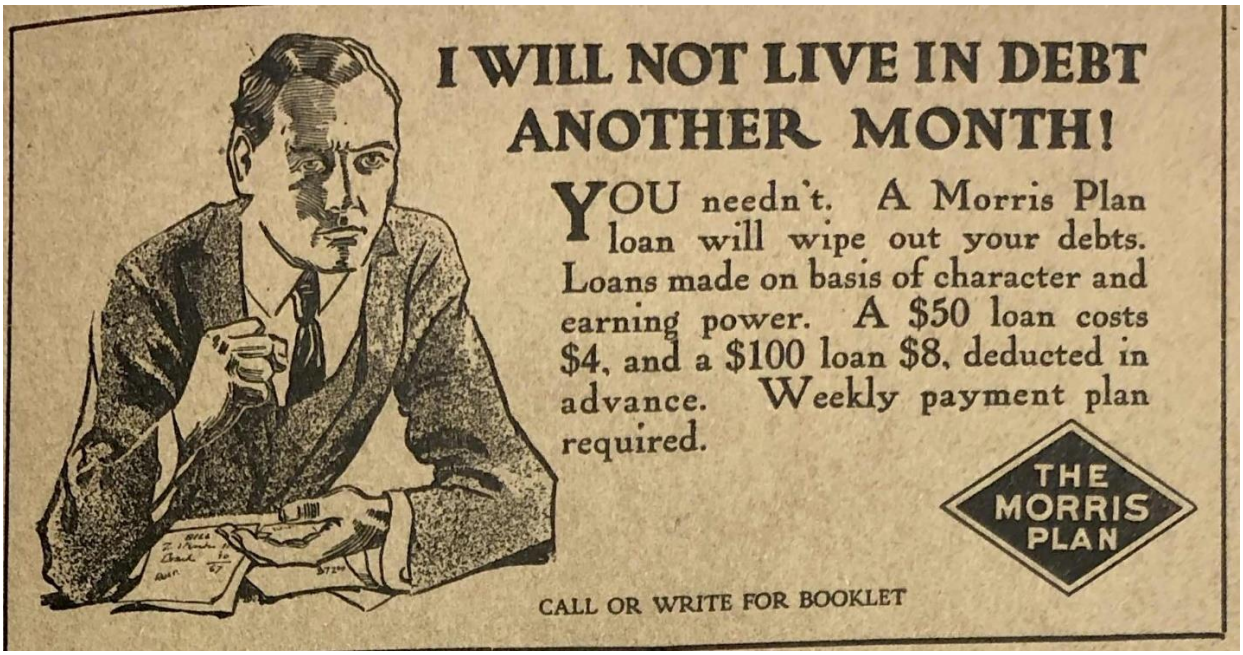

Figure 4: The determined debtor. **"**I will not live in debt another month!" *Thrift* 1, no.1 (1918)

Courtesy of the Library of Congress Manuscript Division.

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