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Credit Cars: Or How I Learned to Stop Worrying and Love Auto Loans

Nicholas Tucker Reyes and Spencer Headworth

Drawing on trade publications, contemporaneous newspaper stories, and other historical sources from the early twentieth-century United States, this article explains how installment plans overcame moral and business concerns to become the standard way people bought cars. Prominent figures in the automobile industry and financial institutions initially denounced the idea of selling cars on credit, and many banks declined to extend credit to would-be auto buyers. However, the relevant legal infrastructure heavily favored creditors, allowing them to circumvent usury laws and guaranteeing their right to repossess assets if borrowers missed payments. When the profit-making that these aspects of the law enabled became clear, moral objections to the idea of selling cars on credit yielded to a new moral consensus among powerful actors that valorized buying cars on credit and concentrated disapprobation on just those borrowers who defaulted on their payments. Thus, the characteristics of the legal infrastructure functionally presupposed the resolution of the erstwhile debate about the fundamental morality of selling cars on credit. Ultimately, lending practices building on the legal and moral foundation established in the early twentieth century led to the establishment of subprime auto lenders whose business model revolves around exorbitant interest rates, high fees, and aggressive repossession.

INTRODUCTION

Americans rely on credit to purchase automobiles. As of 2019, 85 percent of new car purchasers used financing, as did over half of used car purchasers (Cross et al. 2019, 5). In the first quarter of 2023, Americans' auto loan debt totaled $1.56 trillion (Federal Reserve Bank of New York 2023).[1] Auto loans were not always so ubiquitous. Until the 1910s, cars were built to order for specific buyers, who typically paid cash (Olney 1989, 377). These custom-built vehicles were expensive and generally only accessible for well-off people. In the later 1910s and the 1920s, however, credit emerged as the predominant way to buy a car, especially for middle- and working-class buyers (Tedlow 1988, 57; Calder 1999, 203–4). This credit came in the form of installment sales, in which buyers would make a down payment and sign a contract pledging to pay

Nicholas Tucker Reyes is PhD Student, Department of Sociology, University at Buffalo, United States
Spencer Headworth is Associate Professor, Department of Sociology, Purdue University, West Lafayette, IN, United States Email: sheadworth@purdue.edu

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1. With more businesses offering auto loans to subprime borrowers, more car buyers taking out loans, and more total outstanding debt, loan defaults have also increased; the percentage of borrowers at least one month behind on payments reached 9.3 percent at the end of 2022, the highest rate since 2010 (Eisen and Heeb 2023).

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off the remainder of the balance in regular installments. After beginning in the early 1910s, formalized installment selling of cars expanded dramatically as mass production kicked into high gear after the First World War (Hyman 2011, 20–21).

The transition to a credit-based automotive industry met significant resistance. Prominent automobile industry leaders, members of the media, and many bankers decried the idea of selling cars on installments. Henry Ford was the figurehead of resistance to installment plans from within the auto industry, publicly denouncing the vice of relying on credit to buy a car (Tedlow 1988, 58; Olney 1991, 127; Calder 1999, 191; Farber 2002, 104). Popular outlets criticized installment selling as a means "to convince or force people to chase after an ever-elusive good life defined in materialistic terms" (Horowitz [1985] 1992, 162). For their part, bankers were reluctant to grant credit for automobiles (Olegario 2016). Banks were uninterested in doing the borrower evaluations and collections that came with extending consumer credit and saw this business as comparatively high risk and low reward (Hyman 2011, 24). The classification of cars as "non-necessity" goods by the American Bankers Association and the Federal Reserve also engendered hesitance to extend credit for auto purchases (Olney 1991, 120, 125).

In this study, we draw on newspaper stories, trade press articles, and other historical sources to explain how installment sales of cars overcame initial resistance to become the predominant way in which Americans purchased automobiles. The early years of automobility—from 1900 until around 1918—were also the heyday of resistance to the idea of selling cars on credit. Bankers, industrialists, and media figures raised objections in two main categories: business concerns, which framed auto credit as too risky, and moral concerns, which framed buying cars on credit as inherently immoral. Despite these arguments, various parties began offering installment plans for auto purchases in the 1910s. A business-friendly legal infrastructure protecting creditors' interests through circumventing usury laws and confirming rights of repossession solidified between the end of the 1910s and the middle of the 1920s. With such protections in place, offering installment plans proved to be a cornerstone of market advantage and profitability for manufacturers and banks in the 1920s and beyond, functionally mooting opponents' early business-case arguments against the practice.

Would the blanket moral objections from some segments of the capitalist class persist, even to the detriment of profit seeking? They would not. By the mid-1920s, powerful actors coalesced around a new moral consensus that refocused attributions of blameworthiness away from credit users generally and toward specifically the "deadbeats" who failed to meet the terms of their installment plans. Even Henry Ford, at one time the leading voice decrying auto credit, changed his tune; by 1926, his prior expressions of fundamental opposition to the practice on moral grounds evolved into a new position highlighting the moral failings of those who defaulted on their loans, rather than those of auto lending itself.

It is unsurprising that profit motives would trump expressed moral objections. What our research reveals about law's role in mediating between the realms of business and morality is more notable. Certain moral positions were implicit in the legal infrastructure that concentrated risk with borrowers while insulating lenders—namely, that debtors held full responsibility when entering into installment contracts, and accordingly that the negative consequences of defaults should befall them, not creditors.

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After the profit-making that this legal infrastructure facilitated became apparent, the moral positions implicit in the law emerged as an explicit moral consensus among prominent figures representing banking, manufacturing, and retailing. In turn, this new consensus helped rationalize the way defaulters were treated under the law.

By ensuring robust creditor protections—and therefore ensuring profitability—statutes, case law, and contract structures made the defeat of moral opposition all but inevitable. Thus, the legal infrastructure that emerged around auto loans functionally presupposed the resolution of the moral discourse about the practice. Under the erstwhile conceit that auto lending itself was immoral, creditors would bear some degree of moral culpability for engaging in the practice. The new consensus concentrated moral (as well as financial) responsibility with defaulters. These ideas then served to retroactively justify the legal infrastructure that helped solidify them: because debtors who default have thereby demonstrated their moral failings, in a sense they "deserve" the harmful consequences that the law enabled. For their part, creditors enjoyed newfound absolution for moving aggressively to repossess defaulters' cars and profiting off others' hardships.

The characteristics of credit arrangements and the consequences of defaults hinge on legal rules (Platt 2019; Carruthers 2022). In the case of auto loans, these rules could have been different. Legislatures could have imposed caps on interest rates and financing fees or mandated that creditors refund borrowers some percentage of their investment in a vehicle after repossession. Courts could have rejected arguments that installment plans should be exempt from usury laws or invalidated contracts that tilted heavily in creditors' favor. Agencies could have taken a more aggressive posture in regulating loans and the resolution of defaults, perhaps even treating credit to access automotive transportation as something closer to a public utility (see Baradaran 2020). Such differences in legal infrastructure likely would have engendered significant differences in the surrounding moral discourse. Instead, the legal infrastructure that emerged concentrated financial and moral liabilities with borrowers. As the twentieth century wore on, auto lending practices continued to build on the legal and moral foundation established in the first decades of automobility. Ultimately, this led to the establishment of buy here, pay here car lots and other subprime auto lenders whose business model revolves around exorbitant interest rates, high fees, and aggressive repossession.

EXISTING LITERATURE

Formalized installment selling in the United States dates back to at least 1807, when the Cowperthwait & Sons installment house was established in New York (Mussey 1903, 11–12). Early installment sellers offered farm equipment, horses, carriages, furniture, rugs, and bedding (Mussey 1903; Foulke 1941, 195). As industrialization proceeded, installment sellers began offering other goods, including pianos, organs, stoves, sewing machines, book sets, watches, and jewelry (Foulke 1941, 195–96; Olegario 2016, 10–11). In the twentieth century, installment selling's use in the automobile market propelled this form of credit to prominence in the American economy. As early as 1909, private parties selling their used cars via classified ads began

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offering payment plans (Calder 1999, 185). Dealerships began to explore financing plans between 1910 and 1915 (185–86). Seattle's W.P. Smith and Company, one of the first outside lending organizations to enter the field, began financing automobiles on installments in 1910 (Foulke 1941, 197). San Francisco's L.F. Weaver established the first formalized finance company for dealerships in 1913 (Calder 1999, 185–86), followed shortly after by Philadelphia's C. Trevor Dunham (Foulke 1941, 197; Olney 1989, 382). Hence, "[b]y 1917 there were at least twenty-five concerns financing instalment sales of automobiles and several had spread their operations into many States" (Foulke 1941, 197). By 1925, the number of sales finance companies had grown to almost fifteen hundred, with over 90 percent offering automobile financing (Olney 1989, 377; 1991, 109–10).

Credit proved essential for selling mass-produced cars. In the first years of automotive production, cars were custom-built for specific well-off buyers (Olney 1989, 384). In 1910, the assembly line was a non-factor in automobile manufacturing; by the First World War, assembly line production was the norm (385). Mass production brought with it the rise of the dealer system. Cars were now produced and shipped speculatively, based on predictions of future retail demand rather than as special orders for individuals (384). In combination, these changes in manufacturing and retail practices created a conundrum. Cost-effective mass production required consistent, continuous manufacturing. Retail demand, however, was highly seasonal, peaking when the weather improved in spring and bottoming out in winter. This required dealers to build up stock in winter to sell in spring. Many dealers, however, could not afford to stockpile inventory in this fashion (385).

Thus, for manufacturers, the importance of financing first manifested in the wholesale side of the business, not in retail auto sales (Olney 1989; Hyman 2011, 22). Finance companies found a niche in offering wholesale loans to dealers (Olney 1989, 377; Hyman 2011, 11). After dealers sold cars on installments, they would sell the contract to a finance company: "Most finance companies purchased retail contracts on a 'recourse' basis; if a buyer defaulted, the dealer repossessed the vehicle but was responsible for paying the unpaid balance" (Olney 1989, 380).

Alfred P. Sloan, the vice president of General Motors (GM), along with his colleague John J. Raskob, established the General Motors Acceptance Corporation (GMAC, now known as Ally Financial) in 1919 (Foulke 1941, 197; Calder 1999, 191; Farber 2002, 104). Early records indicate that GMAC was initially wholesale focused; GM's 1919 annual report described GMAC's objective as "assist[ing] dealers in financing their purchase of General Motors products, and also to finance, to some extent, retail sales" (quoted in Olney 1989, 383). Not until 1924 did GM use consumer sales (rather than dealer sales) as its "fundamental index" of success (Hyman 2011, 23). GM's annual reports evince this transition; while the 1919 report described GMAC as being for dealers, the 1923 report emphasized both dealers and consumers, and the 1927 report depicted GMAC as consumer-focused (25).

Credit allowed consumers to consider higher-priced vehicles. While Henry Ford continued to prioritize the lowest purchase prices possible, Sloan set GM's prices above Ford's threshold and marketed mid- to high-priced cars (Tedlow 1988, 57). During the 1920s, GM dramatically increased their automobile market share, due largely to their enthusiastic embrace of installment selling (Persons 1930, 115; Tedlow 1988, 56; Farber

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2002, 104). GM's credit proved a better driver of sales numbers than Ford's lower sticker prices, enabling a "rational price strategy" that facilitated mass marketing (Tedlow 1988, 56–58). By the time Ford relented and began offering installment plans through its Universal Credit Corporation in 1928, its market share had dwindled to less than 20 percent—compared to 50 percent in 1921—and GM had emerged as the new market leader (Olegario 2016, 135).

The rise of the "mass market" cemented installment buying as a cornerstone of retail automobile sales (Farber 2002; Olegario 2016, 11). "By 1920, nearly two-thirds of new cars and half of used cars were purchased with credit" (Olney 1989, 377). In the mid-1920s, a representative of an automobile finance company in Muncie, Indiana, estimated that between three-quarters and nine-tenths of the area's car purchases were made on installments, and said that "a working man earning $35.00 a week frequently plans to use one week's pay each month as payment for his car" (Lynd and Lynd 1929, 255). By 1930, total annual installment credit sales had swelled to six billion dollars, half of which was debt outstanding, and half of the three billion dollars of outstanding debt originated from the sale of new and used automobiles (Persons 1930, 115). In this new environment, "the finance company bridged the gap between the buyer and the commercial bank, the finance company investigating the credit standing of the buyer, making collections, repossessing goods in case of defaults, and in this process, practically guaranteeing banks against loss" (Foulke 1941, 197–98).

CRUCIAL LEGAL INFRASTRUCTURE

All installment plans share a common legal foundation in the separation of title from property. That is, the seller retains legal ownership and title to the property until the buyer repays the purchase price in full.[2] Two other aspects of the legal infrastructure were crucial to retailers' embrace of installment plans: installment contracts' specification of creditors' right of repossession and installment sales' insulation from usury laws.

Contracts

Installment contracts sharply limited buyers' legal recourse. Failure to keep up with payments gave sellers the right to repossess the property, with buyers forfeiting whatever equity they had already paid in (Hyman 2011, 34). This contrasts with the conditions of other types of secured loans, such as residential and agricultural mortgages, which entitled property owners to retain remaining equity following foreclosure (see Carruthers 2022, 178–79). Contractual protections—especially the right to repossess property without having to refund previous payments—were pivotal in retailers' decisions to offer installment plans: "Armed with ironclad contracts and the right of repossession, installment dealers were in a better position than many retailers who sold on credit" (Lauer 2017, 89). Some installment contracts even included "'confessions of

2. Similar mechanisms characterized chattel loans, "cash advances secured by a lien on the borrower's personal property" (Fleming 2016, 736). Car title loans are a contemporary analogue.

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judgment' that empowered creditors to garnish wages without having to file a suit," a practice that states did not outlaw on due process grounds until the 1960s (Olegario 2016, 67; see also Kagan 1984, 342).

Previous models of book credit had been comparatively informal, sustained by interpersonal familiarity and trust (Lauer 2017). These forms of credit were less workable in urbanized and industrialized social contexts, in which borrowers and lenders were less likely to be personally acquainted. Contractual obligations for buyers and protections for sellers reflected the conditions of depersonalized credit provision. Under "the contractual formality of installment selling . . . cold legal documents stood in stark contrast to the informality of credit relationships between countless local retailers and their 'trusted' customers" (Lauer 2017, 52). Moreover, these contracts' opacity meant that many installment buyers did not completely grasp their terms (Carruthers 2022, 123).

Conditional sales contracts for cars protected creditors by facilitating repossession (Starr 1934; Kagan 1984, 342; Olegario 2016, 67). Historically, installment plans secured through chattel mortgages carried more legal rights for consumers and restricted repossession tactics (McCall 1973, 73). Buyers used chattel mortgages to take out loans against non-real estate property that they already owned, like furniture or livestock, whereas conditional sales contracts were preferred by sellers offering new or used goods (Olegario 2016, 67). Repossession under conditional sales contracts proceeded with less oversight and favored sellers' interests. Quoting Judge Leonard A. Jones, McCall (1973, 73–74) notes that, in the late nineteenth century, "the prevalent judicial view" was that "the vendor may use such force as may be necessary to accomplish the purpose of the contract—the removal of the goods."

By the end of the nineteenth century, the National Conference of Commissioners on Uniform State Laws and the Russell Sage Foundation were advocating a uniform law approach to addressing inconsistencies in borrowers' rights, a condition that disproportionately affected poor and working-class populations (Carruthers, Guinnane, and Lee 2011, 399). States began adopting the Uniform Conditional Sales Act in 1919, but this law only gave creditors more leverage in collection processes, granting "the conditional seller the statutory right to repossess upon a default in payment or in the performance of any other material condition without prior agreement of the parties if the repossession could be accomplished without breaching the peace" (McCall 1973, 74). Subsequently, courts continued to limit legal protections for borrowers, with repossession being permissible so long as it did not breach the peace (McCall 1973). US laws, however, never sufficiently defined "breach of the peace," giving courts wide leeway in interpreting the term. Further, the Uniform Conditional Sales Act and its successor, the Uniform Commercial Code, "left parties without a remedy in the face of significant emotional, physical, or financial harm caused by a repossessing creditor" (McRobert 2012, 571).

Despite state legislatures enacting at least thirteen uniform lending laws by the 1920s (Carruthers, Guinnane, and Lee 2011, 399), efforts to protect borrowers' rights and standardize debt collection processes proved to have limited effectiveness (McCall 1973, 74). Thus, lenders in many states evaded what would become "commercially reasonable" requirements of repossession and resale under the Uniform Commercial Code in 1952 (Lariviere 1980, 496). Lenders would fail to notify borrowers of

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repossession or whether the company would allow them the opportunity to recover or repurchase their car (Nugent and Henderson 1934, 97). If the car's value exceeded the outstanding balance, it was also not uncommon for creditors to repossess vehicles after only one missed payment (96).

Under these conditions, repossession became pivotal to the lucrative installment-based auto sales business flourishing in the 1920s. "Unscrupulous creditor[s] holding valid legal instruments" enjoyed the benefits of a favorable legal infrastructure (97). Creditors' advantaged legal position allowed them to exploit low-income and working-class borrowers who signed installment contracts, including through aggressive vehicle repossession and debt collection tactics.

Avoiding Usury Laws

Purchasing on installments has long entailed greater total expenditures from buyers. In 1852, one observer noted that "everybody knows that goods can be bought in the eastern cities from ten to fifteen per cent lower for cash, than upon a credit of six months" (Foulke 1941, 152). In early nineteenth-century New York, installment sellers offered goods 10 percent cheaper to cash buyers (Mussey 1903, 12–13). Auto retailers in the 1920s operated similarly, offering a lower "cash price" and a higher "time price." The time price included additional charges associated with paying on installments; in the early 1920s, time prices were 15 percent to 22 percent higher than cash prices, and effective annual interest on auto loans topped 30 percent (Olney 1989, 379–81). Between 1922 and 1923, the total dollar amount of outstanding automobile debt per household increased by 57 percent in just one year (Olney 1991, 93). The early 1920s market, however, was still largely made up of middle-class borrowers, with lower-income drivers slowly entering the market during this period (Calder 1999, 203–4).

At the same time, many states had usury laws that capped interest rates well below the effective rates that installment sellers charged their customers.[3] Installment buyers who attempted to invoke states' usury laws to challenge sellers' practices found little recourse in the courts (Hyman 2011, 32). In 1924's GMAC *v. Weinrich*, for instance, a Missouri appeals court held that GMAC could repossess a car sold on installments. In so doing, the court rejected the defendant's argument that the time sales agreement should be considered void because its terms violated usury laws. Instead, the court confirmed sellers' right to charge time prices that exceeded cash prices. The court also upheld the legal distinction between a loan, which constituted the borrowing to which usury laws applied, and a time purchase, which was outside the protection of usury laws. The court reasoned that any goods bought on installments, being beyond the purchaser's immediate ability to pay, were *ipso facto* luxury goods, distinguishing the installment buyer from the "needy borrower" who might have no choice but to take out a loan from a "rapacious lender" (*Minnesota Law Review* Editorial Board 1952, 747, n. 19; Hyman 2011, 32). Under this "time price doctrine," installment sales were outside the scope of usury laws (see Handley 1971, 390; Fleming 2018, 4–5). Because auto installment plan

3. Despite laws formally proscribing usurious interest rates on personal loans, predatory lending was a widespread problem. See Ham 1912; Kelly 1941; Calder 1999; Anderson 2008.

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buyers lacked recourse to usury statutes (McDonald 2021, 69–70) and chattel mortgage regulation (Olney 1991, 188–89), lenders were legally permitted to repossess assets without compensating buyers for money paid in. These experiences, in turn, undermined consumers' financial positions and overall well-being (Olney 1991, 188–89). Whereas small loans were regulated comparatively closely (a fact that sometimes impeded low-income borrowers' access to legitimate lenders), "selling goods 'on time' was hardly regulated at all, thanks to a longstanding legal distinction between cash loans and sales credit" (Fleming 2018, 4).

THEORY

Our analysis of auto loans' rise to predominance builds on studies addressing relationships between moral considerations and economic activity, particularly Viviana Zelizer's landmark historical analyses. In the case of life insurance, Zelizer (1978, 597) documents how "a growing awareness of the economic value of death legitimated the life insurance business," overcoming previous resistance that had framed "profiting" from death via life insurance payouts as immoral. Critics comparably decried the perceived commodification and profanation of children's lives in the early years of children's insurance (Zelizer 1985). Subsequent work in economic sociology has similarly argued that moral considerations infuse economic transactions (see, for example, Quinn 2008; Polletta and Tufail 2014; Kiviat 2019; see generally Fourcade and Healy 2007). Prior studies in this area have demonstrated how "[s]uccessful actors shape understandings of how the market is and should be, thereby institutionalizing assumptions and beliefs that promulgate their values and interests" (Kiviat 2019, 1137; citations omitted).

Cars, of course, were always saleable goods; the automobile market itself did not face fundamental questions about its morality. Instead, the resistance here was specific to the prospect of selling automobiles on credit. Installment selling's critics combined morality concerns and business concerns. That is, they argued both that it was immoral for people to buy cars they "couldn't afford" (because they did not have the cash on hand to pay full purchase prices) and that it was bad business to sell cars to people in this situation. Installment contracts guaranteeing rights of repossession addressed the business problem by securing creditors' interests. In so doing, they also indirectly addressed professed morality concerns. Installment selling facilitated a shift from framing buying a car on credit itself as immoral to concentrating opprobrium specifically on borrowers who failed to comply with installment terms. By functionally converting people who "couldn't pay" into people who "could pay," installment terms also justified concentrating moral criticism on those who now by definition could pay, but didn't. Framing non-payment of debt as immoral is an ancient and widespread human tendency, particularly during periods of economic uncertainty (Sandage 2005; Graeber 2014). The story of automobile installment plans' rise to prominence exemplifies how legal frameworks of debt reinforce and concentrate such assignments of blame.

Repossession was crucial. By specifying that lenders retained legal ownership until debts were repaid, installment contracts providing rights of repossession protected creditors against their debtors' potential transgressions. Moreover, recentering opprobrium on delinquent borrowers specifically—rather than on borrowers generally

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—served to justify repossession as not only a business decision within creditors' legal rights, but also morally, as an acceptable consequence for debtors' failure to discharge their freely agreed-upon obligations.

Greta Krippner (2017) has compellingly argued that claims invoking property rights can give borrowers greater leverage in the inherently imbalanced creditor-debtor relationship. Here, we complement Krippner's argument by showing how undermining borrowers' ability to make ownership claims was crucial to bankers' and industrialists' embrace of installment auto sales. Through locating legal ownership with creditors until loans are repaid in full and authorizing lenders to retake physical possession in the event of any deviation from specified payment schedules, installment plans concentrated all property rights with creditors. Under this logic, repossessing vehicles from "deadbeats" who had shown themselves to be immoral and untrustworthy by defaulting on loans was not just appropriate, but the right thing to do. The threat of repossession functions as a powerful disciplinary force compelling debtors to maintain payment schedules. From creditors' perspective, this amounts to compelling buyers and borrowers to be more moral. If, on the other hand, debtors failed to meet the moral obligations incurred by buying on installments, repossession offered the ultimate corrective of returning the asset to its rightful legal owner.

Scholars probing relationships between law and society have long challenged natural law-inspired arguments that legal codes reflect universally applicable moral rules. In particular, our study builds on numerous analyses contending that legal rules reflect the nature of economic systems and function to advance the interests of powerful actors within those systems (see, for example, Hurst 1964; Marx 1990; Rusche and Kirchheimer 2017). As argued perhaps most notably by Pierre Bourdieu (1987), ideas codified in law become naturalized over time, becoming increasingly taken for granted and seen as innate to the social order or simply common sense. Our study is in part an analysis of the early stages of such a naturalization process. Beyond that, our study shows how moral positions implicit in the law can become not just accepted, but valorized, with favorability toward powerful actors engendering moral consensus among those actors. This finding is of interest to law and society scholars for its demonstration of moral consensus as resulting from legal rules rather than precipitating them.

Credit of one sort or another was essential for the mass proliferation of private cars. The form that this credit took—including creditors' retention of ownership rights until total repayment—made the arrangement attractive to lenders but fraught for borrowers. The new consensus that blessed borrowing itself and demonized only defaulting functioned to advance the interests of capitalists and rationalize even dangerous and deceitful practices in the burgeoning repossession industry. Without question, automobile installment plans played a crucial role in making private automobiles accessible for more people and in the broader democratization of credit. Our findings, however, shed new light on the legal origins of the precariousness and risks of accessing both credit and transportation in twentieth and twenty-first century America.

DATA AND METHODS

Methodologically as well as theoretically, our explanation of installment plans' proliferation corresponds to Zelizer's (1979, 1985) germinal accounts. To answer our

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TABLE 1.
ProQuest and Westlaw searches

ProQuest and Westlaw Search Terms	News Articles Collected	Legal Sources Collected
"automobile loans"	63	4
"automobile paper"	59	2
"car repossession"	66	4
"loan sharks"	14	2
"repossessor"	3	2
Totals:	**205**	**14**

research questions, we collected and analyzed historical accounts of the emerging auto loan industry. We gathered primary data from historical newspapers and a leading trade publication, which we supplemented with historical legal sources.

Scholars employ archival methodology to collect and analyze data in various forms. Archival evidence can reveal historical processes and pivotal events and thereby permit social scientists to better explain the present. The framework proposed by Armando Lara-Millán, Brian Sargent, and Sunmin Kim (2020) identifies three kinds of archival evidence that allow researchers to make claims about the social world. "Positive contingency" underscores key historical moments that may have gone unnoticed, "learning by mistakes" shows how actors worked through processes to achieve results, and "plausible alternatives" reveal how key groups or individuals reached decisions after considering the other possibilities and options available to them (Lara-Millán, Sargent, and Kim 2020).

Our archival findings on the historical progression of automobile loans correspond to Lara-Millán and colleagues' (2020) framework. Positive contingency is visible in how the legal infrastructure supporting installment plans—particularly rights of repossession—protected creditors, as well as the era's pivotal shifts in moralization. Policy makers and lenders had to navigate initial resistance to granting auto credit and develop new financial instruments, policies, and legislation through trial and error, demonstrating learning by mistakes. Lastly, after considering and dismissing other plausible alternatives, lawmakers and key actors eventually rationalized the installment credit market for automobiles, institutionalizing installment contracts and methods like repossession to protect lending institutions' capital.

Our primary data on the media coverage of car loans come from contemporaneous newspaper articles. These articles provide detailed reports and narratives of automobile lending and discussions of evolving legal and business considerations. To build our corpus of newspaper accounts, we conducted keyword searches on ProQuest Historical Newspapers to identify relevant articles published between January 1, 1900, and December 31, 1930 (see Table 1).

The ProQuest newspaper database comprises forty publications (*New York Times*, *Los Angeles Times*, *Chicago Tribune*, and *Boston Globe*, among others) (see Table 2). This distribution offers a broad view of media coverage, trends, and key local and national events. The keyword search yielded numerous articles; we were able to exclude some irrelevant documents using ProQuest's document-type filter and excluded others as

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TABLE 2.
ProQuest results by search term

News Publications	Search Terms "automobile loans"	"automobile paper"	"car repossession"	"loan sharks"	"repossessor"	Totals
Austin American-Statesman	1		2			3
The Atlanta Journal-Constitution	1	3	1	1		6
The Baltimore Sun	4	1	6			11
The Boston Globe	6		3			9
Chicago Tribune	2	2	2	2		8
The Christian Science Monitor			2			2
Detroit Free Press	1	1	1	1		4
Hartford Courant	2		4	1		7
Los Angeles Times	6	6	5	1		18
The Louisville Courier Journal	1					1
The New York Times	10	19	9	7	3	48
New York Tribune/Herald Tribune	4	6	8	1		19
San Francisco Chronicle	2	2				4
St. Louis Post-Dispatch	3					3
The Tennessean		1				1
The Wall Street Journal	17	12	12			41
The Washington Post	3	3	9			15
International Newspapers		3	2			5
Totals:	63	59	66	14	3	205

irrelevant through a two-stage review process. First, we read the initial set of articles and analyzed how the keywords were being used and discussed. In this stage, we filtered out irrelevant articles if the keywords in the article did not apply to the development of car loans. This process produced a final sample of 205 relevant articles. For the second stage of the review process, we carefully read and reread each article in our sample for both key facts and thematic content, assessing what the article revealed about cars, loans, and moralization and determining its fit with other sources and emerging themes.

To further illuminate the business perspective on automobile loans, we examined articles published in the trade publication *The Horseless Age*. Discourse in trade journals reveals how industry actors navigate their legal environments (McElhattan 2021). In uncertain legal environments, economic actors seek predictability (Edelman and Stryker 2005). This is a consistent theme in the case of early automobile financing. Due to the unproven nature of automobile installment contracts, dealerships and finance

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companies who agreed to sell to consumers on payments sought to ensure profitability amid uncertainty. Repossession was a key tool for bolstering economic predictability and profits.

Published in 1895, *Horseless Age*'s (1895, 7–8) first issue described it as the first trade journal "devoted to the interests of the motor vehicle industry." As a leading source for coverage of the early automotive business and related legal and cultural matters, *Horseless Age* offers a key perspective on the origins of automobile credit, including industry discourse that did not always appear in news media. It also provided a forum for consumers to discuss car purchasing, which we used to help analyze power dynamics between capitalists and motorists. We reviewed digitized copies of every issue of *Horseless Age* published between 1900 and 1918, the year the publication was discontinued. We first closely read several issues in their entirety. This initial reading revealed that information relevant to our inquiry was concentrated in the journal's "Legislative and Legal," "Commercial," and "General" sections. Accordingly, we focused primarily on these sections in completing our comprehensive review, which yielded fifty-seven articles discussing automobile credit, legislation, and methods for collecting on unpaid balances. We read each relevant article multiple times to identify recurring themes and how both industry professionals and motorists understood and depicted installment purchases.

To validate and contextualize the data from newspapers and *Horseless Age*, we cross-referenced with early economic studies, legal analyses, and reports from the Russell Sage Foundation. We also reviewed relevant court cases and legal scholarship. To identify relevant legal materials, we searched the Westlaw database with the same search terms used in our newspaper and trade publication searches. This process yielded fourteen law review articles, court cases, and documents, several of which included testimony from borrowers and lenders (see Table 1). These materials offered additional details on the legal infrastructure supporting the rise of installment auto sales.

Several limitations characterize collecting historical data from electronic databases. Archival sources, including electronic databases, are inherently partial. The materials provided by digital archives are limited to the documents and narratives that can be preserved (Childress, Calonga, and Schneiderhan 2020) and the capacities of search functions limit what sources researchers can find. To help ameliorate this issue, we used multiple keyword searches to collect the widest array of sources we could. Second, powerful actors influence what records are created and stored in archives, creating dangers of selection bias (Lustick 1996). To combat this limitation, Ian Lustick (1996) suggests that researchers draw evidence from outside of the primary historical narratives and incorporate external sources of data and theory that help provide the most accurate picture of the past. Our triangulation across multiple primary and secondary sources aims to minimize the risk of selection bias. These multiple data sources permit insights from a broader—albeit still limited—array of consumers, actors, and organizations, with differing sets of interests and priorities.

Despite their limitations, the voluminous and varied collections they contain make digital databases valuable resources for studying historical processes. However, like any properly executed qualitative research, archival work requires scholars to be creative in their search for discrepancies in established narratives and diligent in analysis to effectively capture the case in question (Benzecry, Deener, and Lara-Millán

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2020; Skarpelis 2020). Our research design employs digital databases to maximize benefits and minimize costs. ProQuest Historical Newspapers offers direct access to an array of relevant popular media coverage. *Horseless Age* expands and diversifies the range of perspectives on the adoption of automobile loans, including forums comprising consumers' narratives of their experiences purchasing or selling cars on credit. Sources gathered through Westlaw not only add details on the pertinent legal infrastructure but also include direct testimony from lower-income debtors and consumers who were subject to car repossession and predatory lending practices. As marginalized voices are often excluded from the archives (Luft 2020), we made a concerted effort to incorporate such sources to illuminate the experiences of working-class and lower-income borrowers.

RESULTS

Worries About Auto Lending

Although many early twentieth-century consumers desired—or needed—automobiles, few could afford to pay cars' entire purchase price up front. Many banks and some industry leaders initially scorned the idea of auto loans and exhibited a sharp distrust of lower-income consumers entering into credit arrangements for cars. Bankers publicly derided working-class consumers who purchased automobiles on credit as well as the outlets who loaned the funds. As one banker remarked, "the town clerk who mortgages his home or his savings to get a machine, and spends more than he can afford to keep it up, is taking long chances. We have refused to loan for such purposes, but, judging from the number of sales made, other lenders are not so careful" (*San Francisco Chronicle* 1909, 12). Established financial institutions justified their reluctance to grant credit for automobiles by arguing that cars were a luxury item, not one of utility (Tedlow 1988, 57; Olney 1991, 124; Calder 1999, 187). Banks and financiers pushed this perception of cars as luxuries throughout the 1910s. Some bankers asserted that it was an "unsafe investment" and that "the motor car was plunging the nation into an era of extravagance and leading people to take their money out of banks" (*St. Louis Post-Dispatch* 1916, 4S). US banking policy reflected similar thinking. The Federal Reserve limited automobile credit and warned people against financing "pleasure" autos (*Baltimore Sun* 1920, B13; *San Francisco Chronicle* 1920a, A5).

As automobile production ramped up, selling to customers on credit had the potential to alleviate dealers' excess inventory issues. Yet executives like Henry Ford and Buick manager R. H. Collins (1916) remained skeptical of using credit to assist automobile dealers with inventory issues and the trend toward financialization in automobile retail (*New York Times* 1926b). Collins (1916, V16) wrote that increased levels of installment selling were "perhaps due to over-anxiety on the part of certain manufacturers to market their year's output." The Buick manager insisted that the automobile business continue to operate on a "cash principle" and that allowing credit purchasing would only "introduce an artificial element into an industry that is basically sound and healthy" (V16). The Buckeye and Cameron Manufacturing Company expressed similar opposition, stating: "We have not adopted any plans whereby we

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furnish our dealers with our cars on the partial payment basis," and "[w]e hardly consider it a good business proposition" (*Horseless Age* 1912b, 339). Henry Ford's resistance to installment selling was especially notable: the automobile industry's leading figure was also auto loans' most prominent critic (Tedlow 1988, 58; Olney 1991, 127; Calder 1999, 191; Farber 2002, 104).

Alongside opposition framed explicitly in business terms, bankers and industrialists inveighed against auto loans on moral grounds.[4] Prominent figures invoked suspicion toward selling on credit to less advantaged buyers and promulgated their distrust through the media by describing the practice of buying cars on credit as immoral. According to some, the automobile symbolized status and wealth and was therefore a basis for covetousness. As one banker remarked, "now there are hundreds of men buying automobiles who can not afford them, just because their neighbors have them" (*San Francisco Chronicle* 1909, 12). The journalist in conversation with this banker wrote that this apprehension toward automotive credit was rooted in a "fear that there is too great extravagance, especially among the dwellers in towns who have not the farmer's basis of support" (12). Accordingly, while many households wished to realize the "cherished dream" of owning an automobile (*Horseless Age* 1913b, 895), contributors to this debate remained adamant that consumptive credit had no place in the automobile market, especially for low-income or working-class Americans. As one article expressed, "if motor cars could be bought on a low installment plan there are families which would deprive themselves even of the necessities in order to buy one" (*Horseless Age* 1913b, 895).

Henry Ford's opposition to installment plans persisted throughout the 1910s. Asked by the Wisconsin Bankers' Association whether cars of the future would be sold on credit, Ford responded: "I have never been able to determine just what is the difference between paying your debts now or putting them off … and in the final analysis, I have never been able to see any good in this system" (*Horseless Age* 1915b, 117). Perhaps suggesting the emerging inevitability of auto loans, however, local Ford dealers were independently selling vehicles on installments by 1914 (Calder 1999, 191). The Ford Motor Company went so far as to sue Ford dealers who were not selling cars at "full list prices."[5] Buick manager R. H. Collins (1916) also emphasized his moral opposition to the practice (*Hartford Courant* 1916). Collins expressed concerns similar to Ford's. Both executives contended that cars should be sold only when buyers could pay the entire price up front. Collins (1916, V16) wrote that if someone "cannot afford to own an automobile he ought not to have one—until he can afford it. I mean that absolutely. … Such sales are a detriment to the manufacturer, the dealer, and the purchaser."

Discourse surrounding loan defaults and collection processes also reflected both business hesitations and moral criticisms. Collins (1916, V16) argued that new cars sold through installments would "come back to [the seller] as second-hand machines, thus forcing him to make other sales in order to get his money." Comparable questions about

4. Our data do not provide access to people's internal thoughts and feelings. It is possible that critics of automotive credit used moral condemnation as a cudgel against practices that they truly opposed on different grounds.

5. *Ford Motor Co. v. Union Motor Sales Co. et al.*, 244 F. 156 (1917).

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selling cars on credit to "chronic bill slackers" and collecting on unpaid balances recurred in the pages of *Horseless Age* (see, for example, *Horseless Age* 1915a, 627; 1918, 26–27). US banking policy reflected similar positions. Federal Reserve banks considered automobile financing high risk, keeping interest rates for auto loans above standard commercial rates (Olney 1991, 130). In addition to distinguishing financing "pleasure" autos and "business" autos (*Baltimore Sun* 1920, B13; *San Francisco Chronicle* 1920a, A5), the Federal Reserve Board also kept rates high because of the lack of uniformity in car credit arrangements. F. W. Fenn, a member of the National Automobile Chamber of Commerce and an advocate of credit selling, claimed that Federal Reserve banks' concerns stemmed from the unstandardized practices of automobile dealers, with some offering payment plans "beyond ten or twelve months" with less than one-third of the car's purchase price being accepted as a down payment (*San Francisco Chronicle* 1920b, A12). Under the belief that escalating repair costs would discourage repayment, banks urged finance companies to adhere to the standard of a one-year payment plan with one-third of the car's purchase price being required as a down payment (*New York Times* 1927, N17).

Love the Debtor, Hate the Default

By the mid-1920s market pressures pushed even the strongest skeptics to come to terms with credit sales. At the same time mass production was kicking into high gear, the supply of buyers who could afford to pay cash for cars was dissipating. As W. H. Alford, the vice president of Nash and Ajax Motors Company, summarized, "[v]ery quickly the market for all-cash customers was exhausted and the industry faced the problem of finding ways and means of marketing its climbing production" (*Detroit Free Press* 1926, 10). At the same time, car-centered planning decisions were rendering private automobiles increasingly indispensable for large segments of the population, with governments investing massively in automotive infrastructure throughout the 1920s (Flink 1988, 144–47).

Although some manufacturers (Ford, Buick) continued to resist offering credit, other automakers—alongside some dealerships and private sellers—pivoted to installment plans. In what the *New-York Tribune* headlined as a "radical change in methods," Studebaker became the first manufacturer to offer cars on credit in 1911, stating that it would "accept notes from farmers and other responsible buyers" (*Horseless Age* 1911, 871; *New-York Tribune* 1911, 13). In 1916, the Maxwell Motor Company began contracting with consumers on installment plans, requiring a 50 percent down payment followed by eight monthly payments (Olegario 2016, 134).

Emerging as early as 1910, sales finance companies led the charge in the early auto loan market (Foulke 1941, 197). Banks, however, were still hesitant to grant credit directly to customers or automobile dealers. Instead, banks transferred capital to the newly formed sales finance companies who then extended credit to automobile dealers that contracted on installment plans with customers (*Wall Street Journal* 1915; *St. Louis Post-Dispatch* 1916). This arrangement was attractive to banks. Reports indicate that loans organized by finance companies were "finding great favor among the banks" because of their "self liquidating character" where creditors could satisfy unpaid balances

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through repossession and resale (*Wall Street Journal* 1919, 10). Moreover, transferring capital to sales finance companies offered banks the opportunity to lend to organizations and populations who would have been rejected in standard loan application processes. "There are in the United States a vast number of companies and individuals whose resources, or apparent credit risk, do not measure up to the standard required by banks. It is largely these that the finance company is called upon to finance," one article concluded (*Los Angeles Times* 1924b, 15). Lending to such populations, however, came with explicit terms that installment contracts would be "carefully watched and rigidly collected" by finance companies, ensuring the protection of financiers' interests (15).

The wholesale embrace of selling cars on credit did not occur overnight. As installment selling exploded in prominence in the 1920s due to its rapid rise in auto retailing, some observers continued to raise questions about the practice's wisdom (Foster and Catchings 1926; Pound 1926). Notably, US Senator James Couzens (1926) published a piece critiquing installment selling's implications for buyers and the economy. Responses to these critiques, however, encapsulated the growing moral consensus on consumer credit and presaged the arrival of ubiquitous auto loan debt. A finance company executive published an article in *Banker's Magazine* (1927) that directly rebutted Senator Couzens' claims. Not only did installment buying not undermine buyers' character, the author claimed: it actually strengthened it. From this perspective, the process of qualifying for credit, keeping up with monthly payments, and ultimately owning the property outright functioned to both demonstrate and bolster the borrower's moral fiber.

Crucial to this logic was the point that "possession, under the instalment system, is not synonymous with ownership" (*Banker's Magazine* 1927, 461). The need to stick to a payment schedule—and thus avoid repossession—was itself a way of instilling discipline and moral fortitude in borrowers. In a related piece, Alfred P. Sloan (1926) himself argued that the obligation to make payments functioned to make borrowers work harder than they otherwise would. The threat of repossession, then, served as an incentive to work, and thus "stimulated the productive power of the average American" to "cheerfully and efficiently" fulfill commitments to make installment payments (18). Reports of savings rates increasing alongside the explosion in installment sales added to arguments that taking on an auto loan itself was a responsible, upstanding thing to do that did not interfere with conventionally favored financial practices (*Banker's Magazine* 1927).

These defenses of installment selling evinced the emerging consensus that the real immorality was not in taking on auto loan debt, but rather in overborrowing and living beyond one's means. Indeed, even writers describing reasons for skepticism about the implications of installment selling's rapid proliferation couched criticisms in the idea of rapacious borrowers creating problems by taking on too much debt and then avoiding the consequences of their prodigal behavior. Arthur Pound (1926, 259) contended in *The Atlantic Monthly* that "[d]odging the installment collector is, even now, a popular indoor sport." Industrialists dipping their toes into installment selling expressed similar views. For instance, Windsor T. White, president of a Cleveland car manufacturer, lauded the benefits of selling on "time" but cautioned that companies "should not be afraid to repossess" from customers who proved not to be a "good business risk" (*Horseless Age* 1915a, 627).

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Installment plans offered through sales finance companies and manufacturer financing arms like Sloan's GMAC helped democratize access to private cars. This access, however, came with conditions that insulated lenders from the prospective malfeasance of unscrupulous borrowers. "What was to hinder John Smith from paying the first instalment on his Juggernaut six and then bowling merrily off into a distant State? What was to protect the seller against the possibility that John might sell an unpaid-for car, have it stolen or play some other prank with it?" one reporter asked (Smith 1926, X16). For creditors, the contractual right of repossession offered an essential protection against such scurrilous behavior.

(Re)possession Is Nine-tenths of the Law

As legal protections of their capital, liens and rights to repossession were fundamental to manufacturers' and dealers' embrace of formalized installment plans. In general, installment contracts include sellers' right to repossess property if buyers fail to make payments. In the event of repossession, contract terms do not obligate sellers to return any installments that buyers have already paid (Mussey 1903, 12). Indeed, "[t]he contract which the buyer has to sign is really remarkable for the completeness with which he signs away all possible rights, except the one of gaining title to the property when it is completely paid for" (11). Formalized repossessions for cars emerged in the early 1910s, more or less simultaneously with finance companies offering the first installment plans (*Wall Street Journal* 1919, 10). With the right of repossession, the finance company was "more than doubly secured, (1) by retaining legal ownership of the car, on which the debt is paid off faster than the car can ordinarily depreciate; (2) by the dealer's guarantee of payments as well as by full insurance. Thus, hazard is practically eliminated" (*Los Angeles Times* 1924a, 16).

Advice on best lending practices dictated that lenders should require at least one-third of cars' purchase price as down payments and should avoid offering installment periods longer than one year (*New York Times* 1927; Calder 1999, 192). The model of 33 percent down payments and one-year payment plans allowed dealerships and sales finance companies to stay in the black after repossessing cars from buyers who defaulted. As one article noted, "[t]his large initial payment serves as a protection to both buyer and seller, for it gives the buyer a definite sense of ownership in the vehicle and helps to insure promptness in meeting the remaining payments. For the vendor it offers a protection, inasmuch as it assures him that if at any time he is forced to repossess the car he can still resell the machine without loss" (*Washington Post* 1927, A3).

Outsourcing collections to third parties offered creditors another layer of legal insulation. Studebaker was an early mover not just in offering payment plans but also in contracting out repossessions to other companies. Having a third party manage installment contracts and collection services allowed Studebaker to limit its exposure to negligence liability. As one article described, "it gave repossession service as part of its plan and as an indemnity protection to the dealers' contingent liability incurred in connection with his unconditional endorsement" (*Wall Street Journal* 1927, 14). By virtue of such arrangements, in 1925, Studebaker reported that "repossessions amounted to only 1,100 cars, all of which, with the exception of about 75 cars, were resold by the

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dealers" (14). For some car makers and dealerships, contracting with finance companies both sequestered them from traditional lending laws and provided them a cost-effective avenue to recover and resell property.

Capitalists also invoked expert authority to help justify the new repossession-dependent auto lending system. GM hired Professor Edwin R.A. Seligman to study the consumer finance market using in-house company data. Seligman's resulting 1927 publication *The Economics of Instalment Selling* endorsed installment plans and auto repossession (*New York Herald Tribune* 1927; Calder 1999, 242). Seligman rationalized repossession as a viable means of collection, writing that it "becomes essential that the rate of payment be sufficiently rapid to render possible the repossession of the commodity and its sale for enough to pay the balance due" (*New York Herald Tribune* 1927, 18). Seligman's recommendation that payment plans be structured for creditors to repossess and resell assets without incurring loss indicates how installment contracts protected capitalists' interests. This seal of approval for installment selling and repossession was widely cited by manufacturers, dealers, and auto loan advocates (*Baltimore Sun* 1927b; *New York Herald Tribune* 1927; *Boston Globe* 1930a).

Throughout the 1920s, finance companies persisted in their effort to convince the Federal Reserve that auto loans should be eligible for rediscount—a privilege typically reserved for member banks or merchandising operations that allowed them to extend their lines of credit with Federal Reserve banks at lower rates—and were directed to "standardize" their business practices to assure investors that the market had "stable value" (*Wall Street Journal* 1930, 14). Speaking on behalf of the Federal Reserve Board, one vice president of a national bank advised swift repossession and resale for defaulted loan payments: "You are either financing quite readily marketable merchandise which you may repossess and quickly resell without impairment of your credit, or you are not doing so and until that status for your industry as a whole is determined by yourselves, we should not be expected to assume the burden of responsibility for the member banks and the public for whose protection the Federal Reserve system was devised" (14). This reflected the emerging consensus in the banking sector that a repossession-backed auto loan industry could be predictable and profitable. Nevertheless, the Federal Reserve did not waver from its policy of limiting discount privileges to member banks and lending operations that produced merchandise, and finance companies were unsuccessful in their lobbying efforts (*New York Herald Tribune* 1928b, 31; *New York Herald Tribune* 1929, 38; Olney 1991, 130).

The New Legal and Moral Construction of Borrowing and Default

Legal Construction

In the early parts of the twentieth century, car loans were primarily contracted through three avenues: chattel mortgages, conditional sales, and retail financing by sales finance companies and manufacturers' financing entities. Different regulations and consumer protections applied to these different credit mechanisms. Yet, as car loans became standardized, laws were structured to protect capitalists' financial interests. For instance, the legal provisions of chattel mortgages required borrowers to possess the title

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in order to take out a loan against the car (Harvard Law Review Association 1923, 742). Although banks were not lending to consumers, automobile dealers could enter chattel mortgages with willing banks to increase inventory or secure additional funds. Some dealers would mortgage multiple car titles to secure loans.[6] States, such as California, enforced laws that required the holder of a chattel mortgage to be registered as the legal owner of an automobile. These provisions were also motivated by efforts to smooth the transfer of car titles in succession of interest cases, such as repossession, invoking rules written to protect lenders' interests (*Reno Evening Gazette* 1929, 9).

Conditional sales contracts carried fewer legal rights for borrowers. Differences pertaining to repossession were particularly profound. Chattel mortgage legislation required lenders to resell the repossessed property upon foreclosure with the excess funds received from the sale being returned to the buyer, but "an agreement imposing no such duty is looked upon as a conditional sale" (Harvard Law Review Association 1923, 743–44).

Private parties and local automobile dealers who sold cars through conditional sales contracts legally disputed collection and resale with their customers in early automobile transactions (*Horseless Age* 1912a, 273; 1913a, 495; *Spokane Daily Chronicle* 1929, 6). After repossessions, purchasers who defaulted sought to recover some of the amount they had paid on the automobile in court. Sellers, however, typically prevailed, and because conditional sale contracts for automobiles were exempt from regulations on chattel mortgages, repossessions were permitted without purchaser compensation (*Horseless Age* 1912a, 273; 1913a, 495; 1914, 796). Even if a seller repossessed the car in "bad faith," the purchaser bore the burden of proof, leaving low-income and working-class borrowers with less access to legal representation vulnerable to predatory collection tactics (Starr 1934, 195–97). Statutes like the Uniform Conditional Sales Act of 1919 did not meaningfully protect borrowers from hardships associated with repossessions. This allowed creditors to take extreme liberties with collection tactics (*New York Times* 1928a, 29; 1928c, 42; 1928d, 31; 1928e, 21).

Creditors also benefited from policies that exempted retail financing from legal limits on interest rates.[7] In practice, average annual interest rates on retail financing exceeded 30 percent in the early 1920s (Hubachek 1941, 119; Olney 1989, 379). Scarce regulations pertaining to retail installment plans were weakly enforced, allowing lenders to largely evade both usury laws and "good faith" provisions of collections, which required commercially reasonable repossession and the resale of property at fair market value (Lariviere 1980, 497). Although lenders faced legal challenges on these matters, the Ninth Circuit affirmed that contracts that were "executed by dealer acknowledging that automobiles were finance company's property were not required by state law to be recorded as 'chattel mortgages,' 'conditional sales contracts,' or 'bills of sale'."[8] Therefore, consumers who purchased cars using retail financing were not protected from usurious rates or aggressive collection tactics addressed in chattel mortgage laws and uniform lending laws.

6. *First National Bank of Shreveport et al. v. Louisiana Tax Commission et al.*, 289 U.S. 60 (1933); *Davis v. Aetna Acceptance Co.*, 293 U.S. 328 (1934); *Packard Cleveland Motor Co. v. Commissioner of Internal Revenue*, 14 B.T.A. 118 (1928).

7. See *General Motors Acceptance Corporation v. Weinrich*, 218 Mo.App. 68 (1924).

8. *General Motors Acceptance Corporation v. Kline*, 78 F.2d 618 (1935).

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Moral Construction

By the 1920s, a new moral consensus was becoming apparent. Automotive executives, lawmakers, and repossessors all concentrated resentments on buyers who defaulted, calling them "chronic bill slackers" and "deadbeats." This deviated from the previous notion of auto loans themselves as immoral. The conditions of installment sales located material risk with borrowers; with capitalists' interests thus protected, powerful actors coalesced around a discourse that also located moral responsibility on debtors' side of the ledger (see, for example, *Horseless Age* 1918, 26–27; Miller 1928). In turn, this narrative served to retroactively justify the moral positions implicit in the creditor-friendly legal infrastructure.

Increasingly fierce competition in the auto loan market brought with it riskier loan terms for debtors. As Clarence Y. Palitz, president of the Credit Alliance Corporation, stated, "[t]oday with more than 1,500 organized finance companies and more than 2,500 individuals dabbling in the finance business, the dealer's endorsement is no longer required in most cases, the reserve or margin has been eliminated, and the less conservative finance companies have proceeded far beyond the limits of safety and are carrying the bag for both manufacturer and dealer" (*New York Times* 1926a, 40). Ignoring economists' instruction that car loan contracts should require at least one-third of the value as a down payment with terms no longer than twelve months, finance companies began contracting for down payments as low as 20 percent of the car's value, with repayment terms of up to thirty months (Alford 1926, A6). Additionally, some borrowers testified to companies hiking interest rates by 20–50 percent over the course of their contracts (*New York Times* 1928a, 42; *New York Herald Tribune* 1928a, 1). These developments contributed to a sharp increase in repossessions in just a few years. L. H. Hendricks, president of the American Rediscount Corporation, reported that "[i]n cases where the down payment is 25 per cent. and the time is extended to sixteen months the number of repossessions runs about 400 per cent. greater than with one-third down payment and the balance paid within a year" (*New York Times* 1927, N17).

Perhaps ironically, by the mid-1920s the Ford company became a target of criticism for experimenting with risky low down payment financing prone to high repossession rates (*Wall Street Journal* Detroit Bureau 1925b, 3). This occurred after Henry Ford's unsuccessful trial with the "Ford Weekly Purchasing Plan" in 1923, which had offered customers the option to make weekly payments and acquire a vehicle after their deposits amounted to the full purchase price (Olney 1991, 127, 160). The company's dealerships pivoted to a new weekly payment plan in 1925. The new program allowed for immediate delivery of the car but required two endorsers. Ford's new weekly plan also only required a down payment of $12.60, less than 5 percent of the car's $260 purchase price (*Wall Street Journal* Detroit Bureau 1925a, 10). This payment structure diverged notably from GMAC and other finance companies, which required 25–50 percent down payments.

The strong market for used Fords and the affordability of their repairs supported the business case for looser loan terms. One *Wall Street Journal* reporter wrote that "Ford cars have become so standard a commodity that repossession and resale in case of default can be quickly accomplished and are not likely to cause much expense to the lenders" (*Wall Street Journal* Detroit Bureau 1925a, 10). This repossession-dependent business model

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provided car companies with maximum legal and financial security, a benefit that even the strongest skeptics of automobile credit, like Henry Ford, could not resist. As looser terms proliferated, default rates reportedly ranged from 7–10 percent (*Wall Street Journal* Detroit Bureau 1925b, 3; *New York Times* 1926b, 27). When asked about the growing rates of repossession, Ford stated: "This condition shows that a portion of the people are buying things they cannot pay for" (*New York Times* 1926b, 27). This statement encapsulates the shift in moralization around auto loans. Here, Ford himself signals a transition from framing buying a car on credit as immoral to emphasizing the specific blameworthiness of borrowers in default, and depicts repossession as a predictable, appropriate consequence for failure to pay. Two years later, the company would officially establish the Universal Credit Corporation, their own "specialized organization" to finance Ford cars (*New York Times* 1928b, 39).

Despite loan terms creating greater risks of default, finance companies and lenders concentrated blame on borrowers' inability or unwillingness to pay. "It is the abuse, rather than the practice itself, which is harmful," Clarence Y. Palitz stated (*New York Times* 1926a, 40). "Policing the business" from "dishonest persons" became a primary concern for finance companies' bottom line (Smith 1926, X16). As Joel Rathbone, a vice president of the National Surety Company, described, "[r]unning off with a motor car on which installments are still due is, of course, a favorite trick" (quoted in Smith 1926, X16).

Foregrounding the culpability of borrowers who defaulted, lawmakers maintained legal infrastructure that favored dealers' and finance companies' interests. In 1930, for instance, the Massachusetts House of Representatives rejected a bill to require a thirty-day notice of repossession. The proposed measure "intended to cure certain existing abuses" as companies were reportedly repossessing vehicles the day after buyers missed payments (*Boston Globe* 1930b, 19). Representative Philip Barnet, an opponent of the bill, argued that the measure was "unfair" to lenders, contending that if a thirty-day notice was required, "the machine will be out of the State or smashed up within that time" (*Boston Globe* 1930b, 19).

Similar tendencies characterized other jurisdictions' approaches to policymaking. For example, Florida House Speaker Fred Henry Davis rejected an amendment that would have required finance companies to notify borrowers of imminent repossessions twenty to forty days in advance (*Palm Beach Post* 1927, 2). This rejection reflected the notion that the types of debtors who demonstrated poor moral character by missing payments would also be the type to attempt to evade repossession, jeopardizing creditors' ability to recover assets. In Maryland, attorneys lobbied against and defeated a House bill that would have required companies to pay outstanding taxes on defaulted car loans, arguing that it would place an "undue burden on automobile dealers, especially in the repossession of cars" and unjustly required dealerships to "pay the taxes unpaid by the persons from whom the automobiles were taken away" (*Baltimore Sun* 1927a, 7). Here too, lawmakers prioritized creditors' ability to efficiently recover property from debtors who demonstrated their untrustworthiness by failing to make timely payments.

Repossession agents similarly depicted debtors who defaulted as immoral and repossession as a deserved consequence for personal failings. Repossessors' descriptions of how car buyers evaded payments and challenged collections further accentuated the

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connection between credit default and immorality. One reporter wrote: "The methods devised [by borrowers] to circumvent the finance companies are ever ingenious" and went on to quote a repossessor's account that "[a]lmost every method that can be suggested by the imagination has been employed to block the repossession of automobiles. I have known cars to be guarded by watchdogs; to be chained to trees, even to be hidden under the straw in barns" (Miller 1928, SM7).

Creditors were quick to capitalize on their favorable legal environment. Investigation charges incurred through the repossession process proved to account for a substantial portion of many New York finance companies' profits (Nugent and Henderson 1934, 96). One repossessor testified to receiving between twenty-five and seventy dollars for each car recovered for the finance company, with a five-dollar bonus for collecting more than three cars in a week (*New York Herald Tribune* 1928a, 12; *New York Times* 1928c, 42). Sometimes working on behalf of multiple creditors, repossessors would reportedly drive automobiles into one another, break into garages to collect cars, pose as sheriffs, and create fictitious charges on invoices, bolstering their own profits and exacerbating borrowers' indebtedness (*New York Times* 1928a, 29; 1928c, 42; 1928d, 31; 1928e, 21).

Some repossessors reported getting a thrill out of their collection tactics. In addition to appreciating the profession's lucrativeness, many prided themselves on their ingenuity and skill. One repossessor claimed that he was "described as the 'strongest of the strong-arm men' used to obtain automobiles of borrowers whose payments were in arrears" (*New York Times* 1928c, 42). Another repossessor similarly explained: "You are always up against something new, that's what I like about this game. … I have even followed families to mountain and seashore, and in one instance repossessed a car while the occupants were buying soft drinks at a wayside stand. This may seem a rather ruthless way to treat people, but when they have been giving you the merry ha-ha for weeks or months at a time you can not stand upon a few unimportant points of ceremony" (Miller 1928, SM7). Despite lenders' concerning collection methods, consumers who defaulted on their loans found themselves the subjects of disapprobation, and sales finance companies rationalized repossession as a means of both capital stabilization and retribution.

DISCUSSION AND CONCLUSION

> Strange as it may seem, it appears that the more limited the means of the embryonic motor car owner the easier it is to "stick" him.
>
> — *Horseless Age* (1907, 541)

Installment plans proved to be pivotal financial instruments facilitating the mass marketing of mass-produced automobiles. As such, installment selling's proliferation is a fundamental factor in cementing the automobile as the centerpiece of US transportation, and in many ways the centerpiece of American life. There is a parallel here to the reciprocal relationship between road construction and preferences for cars

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above other modes of transportation; as more Americans obtained cars, governments committed more resources to car-centered infrastructure, which in turn made private automobiles more necessary for physical and social mobility (see Jackson 1985; Litman 2011, 12). A similar cycle characterizes installment plans, the financial tools supporting widespread car ownership: as credit opened access to cars to wider swaths of the socioeconomic spectrum, expectations that working families should have private cars solidified, propelling ever-greater numbers of buyers into the installment market. From lenders' perspective, legal infrastructure securing their positions solidified the business case for installment selling, precipitating a new moral consensus that refocused attributions of blame specifically on borrowers who defaulted.

Repossession was a crucial tool for creditors and a lucrative business for those who retrieved automobiles, sometimes via questionable methods. Lawmakers took an active role in shaping these market conditions, as they did with many industries in the early twentieth century (Novak 2022). Indeed, with legal institutions securing creditors' right to payment and protecting their right to recover property in the event of nonpayment, borrowers' actual ability to pay became "largely irrelevant"; creditors' positions were protected regardless of whether people could keep up with payments (Caplovitz [1963] 1967, xvii). Continually endeavoring to expand the market for automobiles, creditors offered longer and longer repayment terms; this broadened the accessibility of buying a car on credit but also increased the frequency of defaults and repossessions.

According to President Warren G. Harding, by 1921, "the motor car [had] become an indispensable instrument in our political, social, and industrial life" (quoted in Seo 2019, 76). In the mid-1920s, Robert and Helen Lynd (1929, 255) recorded a Muncie mother of nine stating: "We'd rather do without clothes than give up the car." Legislative and judicial authorities, however, lagged in recognizing automobiles as essential household resources in an increasingly car-centric society, maintaining outmoded legal rules that treated purchasing a car on installments as an indulgence in a luxury. Legal recognition that daily life was coming to revolve around cars—and that credit in some form constituted the only feasible means for millions of Americans to access automotive technology—was delayed and incomplete. This furthered working-class people's exposure to default, repossession, and the associated fallout for household economies.

"Respectable" debt-free life has always been elusive for poorer people (see Hyman 2011, 36–37). Although installment selling offered expanded access to "luxuries," this access came with moral judgments and multifaceted exploitation. When it came to cars, initial resistance to offering retail customers installment plans crumbled before the imperatives of the profit motive. Indeed, as installment selling became more commonplace—and associated profits increased—"[a]nxious inquiries from frenzied and fearful businessmen during 1924 and 1925 to the U.S. Chamber of Commerce, disappeared suddenly in 1926" (43). The same features that made installment selling attractive to dealers, manufacturers, and finance companies, however, also meant limited legal protections and minimal legal recourse for working-class people looking to join the automobile age.

Historian Louis Hyman (2011, 6) has argued that research on debt and credit in America has focused too much on culture and morality and not enough on business. Our intervention shows how, with a foundation in creditor-friendly legal infrastructure,

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business imperatives bowled over morality concerns. Our findings offer a new angle on this pivotal early stage in the financialization of household economies (see generally Davis 2009). The post-First World War growth in installment selling, and consumer credit more broadly, hinged on the availability of new ways to sell and profit from debt (Hyman 2011). Alongside home mortgages, auto loans became not only a primary form of household indebtedness but also a key source of revenue generation for the financial sector. Accordingly, understanding this form of credit's rise to prominence is an essential building block for understanding the emergence of both the modern financialized American consumer (see Fourcade and Healy 2013) and the development of the United States' car-centered socioeconomic system. Alongside its implications for household economies and the financial system, the latter phenomenon merits attention for its pronounced environmental consequences.

Particularly in this car-dependent socioeconomic system, auto loans became a centerpiece of indebtedness as a ubiquitous, even definitional aspect of modern life (see Lazzarato [2011] 2012). As Maurizio Lazzarato ([2011] 2012, 45) notes, debt systems need to "neutralize time, that is, the risk inherent to it." Installment plans and rights of repossession served this function for auto lenders, shifting risk—and blame—onto borrowers who defaulted and creating the possibility that debtors would lose both the asset and whatever money they had paid on the loan.

Today, the subprime auto loan market epitomizes this trend. Over the last century, specialized institutions—including dealerships, banks, and insurers—have emerged to meet the demand for private vehicles from people excluded from mainstream financial institutions (see Karger 2003). Buy here, pay here car lots and other fringe lenders offer loans to borrowers with poor credit, charging elevated purchase prices and exorbitant interest rates.

In this sector especially, repossession is less a last resort and more a part of the business plan. Credit Acceptance, a major national player in subprime auto lending, has noted that they anticipate repossessing more than a third of the vehicles they finance (Foohey, Lawless, and Thorne 2020, 291–92). Subprime lenders' profit-making hinges on aggressively moving to repossess vehicles when debtors miss payments, keeping borrowers' down payments and any installment payments they have made, and then reselling the repossessed asset (Pollard, Blumenberg, and Brumbaugh 2021, 1455–56). This cycle of sale, repossession, and resale depends on a population that one of Jane Pollard, Evelyn Blumenberg, and Stephen Brumbaugh's (2021, 1455) interviewees described as "subprime meat": vulnerable borrowers who require cars but have few options for acquiring them. These borrowers have limited incomes but pay elevated purchase prices and exorbitant interest rates. Indeed, reviewing a database of over 850,000 auto loans, *Consumer Reports* recently found that nearly half of subprime borrowers were paying more than the 10 percent of their income that experts recommend as the maximum expenditure for car loans (Felton 2021). Accordingly, these borrowers face far greater likelihoods of default than their better-resourced counterparts (Foohey, Lawless, and Thorne 2020, 291).

Contemporary dynamics in subprime auto lending reflect patterns first established a century ago. Then, as now, installment plans made private cars accessible for more people. Installment contracts, however, are written to undermine debtors' access to ownership claims (see Krippner 2017). Locating ownership rights with creditors protects

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their interests while concentrating both material risks and moral condemnation on borrowers who fail to keep up with payment schedules. Accordingly, lowered barriers to credit and looser loan terms are double-edged swords: although these conditions can facilitate access to private cars for people who might otherwise lack it, they also expose these same people to elevated risks of default and associated consequences, including personal bankruptcy (Foohey, Lawless, and Thorne 2020, 298). In turn, defaulting further damages borrowers' credit ratings, which have increasingly "become the criteria by which society judges moral probity" (Karger 2003, 108; see also Fourcade and Healy 2017). Defaulting debtors thus find themselves trapped not only in cycles of financial struggle but also in cycles of disapprobation invoked to justify their material deprivation.

Our findings demonstrate how legal infrastructure predicated the solidification of an "economy of moral judgment" (Foucade and Healy 2017). Marion Fourcade and Kieran Healy (2017, 24) show how contemporary firms' collection and analysis of consumer data engenders an economy of moral judgment that justifies "outcomes … as morally deserved positions, based on one's prior good actions and good taste." Focusing on an earlier stage of history, we highlight legal infrastructure's pivotal role in laying the groundwork for this type of moralization. Our analysis is of particular relevance to law and society scholars for its illustration of "the tail wagging the dog": moral positions implicit in the law precipitated explicit moral consensus among powerful actors, rather than the other way around (see also Özkan 2023). In turn, this moral consensus served as a key predecessor for subsequent developments, including federal legislation enthusiastically supporting the extension of credit while largely ignoring the hazards of debt (Atkinson 2020) and policy makers' efforts to morally justify why people with lower credit scores "deserve" to pay more for things like car insurance (Kiviat 2019).

The original formulation of automobile installment plans in the early twentieth century concentrated moral, legal, and financial responsibility with borrowers, while largely insulating lenders from the consequences of deals gone bad. Today, subprime auto loans are broadly accessible but carry astronomical interest rates on inflated purchase prices for vehicles that are often unreliable. As the 2007–8 financial crisis illustrated, such rapacious subprime lending practices can produce sweeping socioeconomic ramifications. The auto loan market is not as large or as economically central as the home loan market, but it is considerable, totaling $1.56 trillion in the first quarter of 2023 (Federal Reserve Bank of New York 2023). Given dramatic escalations in car prices and interest rates, we may yet see how profound the impact of a mass wave of auto loan defaults would be.

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