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Louis Hyman. *Debtor Nation: The History of America in Red Ink*. Princeton, NJ: Princeton University Press, 2011. 378 pp. ISBN 978-0-691-14068-1, $35.00 (cloth); 978-1-400-83840-0, $35.00 (e-book).

Written by recent Harvard history Ph.D. Louis Hyman, *Debtor Nation* purports to chart the rise of consumer indebtedness in America. Its seven body chapters cover the origins of modern consumer debt infrastructure in the 1920s, New Deal housing policy, the (alleged) discovery of consumer credit by commercial banks in the 1930s, impact of World War II on credit practices, postwar consumer credit growth, the spread of easy credit to minorities, and the rise of credit cards and their securitization. In the broadest terms, it narrates degeneration from an epoch of personal savings and debt freedom to an age of debt-as-entitlement to a dark period of high levels of *compulsory* personal indebtedness. The prose is usually lively and generally competent, but some of the book's conclusions are problematic.

Before 1917, Hyman contends, personal debt was "disconnected from the great flows of capital" and "confined to the margins of the economy" because "it had never been legal to charge interest rates high enough to turn a profit and . . . lenders have never been able to resell their customers' debts or borrow against them" (p. 1). The financial history literature, however, reveals a contrary view that the author shows no indication of having confronted. Before the late nineteenth century, most consumer purchases were made on credit, a practice that retailers rendered profitable by charging higher prices on credit purchases or by collateralizing overdue book accounts into interest bearing promissory notes or mortgages. A thriving market for personal loans that bypassed usury caps using any of a dozen well-known workarounds also existed. Between the extremes of commercial banks and loan sharks stood an array of pawnshops, note shavers, bill brokers, building and loans, and other microlenders serving the spectrum of consumers from wealthy spendthrifts to poor laborers. The financial history literature also shows that both retailers and moneylenders factored their receivables with local banks or commodities agents. Finally, by the early twentieth century, some regional commercial banks, including the Merchants National Bank of New Bedford, Massachusetts, directly lent to households. So, the small loan law of 1917 does not represent the major break point that Hyman believes. What his book describes, generally soundly and in considerable detail, is the development of a more specialized institutionalized consumer finance market.

At a deeper level, this book is a critique of "capitalism" and a call for government to control it. Although nowhere adequately defined,

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Hyman's capitalism is powerful but not omnipotent. Government can tame its worst aspect, the inequality that it inevitably produces, while channeling its major benefit, innovation, into "productive" as opposed to "nonproductive investments" (p. 286) like subprime mortgages. "The choice is not between the government or the market," Hyman concludes. "The only choice is how to use government to control the market for social good" (p. 287). That may be a difficult conclusion for readers to accept, however, as *Debtor Nation* is full of examples of costly unintended consequences caused by new regulations.

During the Depression, for example, two New Deal housing programs of dubious merit led to the creation of two new programs that, while initially successful, are widely considered to have contributed to two major financial crises. Specifically, the poor repayment performance of Home Owner's Loan Corporation borrowers and the Public Works Administration's inability to successfully complete high-impact projects reinforced the widespread belief that government was incapable of efficiently financing or building houses. Hyman shows that in response the government created long-term, standardized amortized home mortgages and improvement loans that could be sold to the Federal National Mortgage Association, a government entity that was later privatized and then duplicated (Fannie Mae and Freddie Mac). It also created the Federal Housing Administration (FHA) and tasked it with administering the insurance of the new mortgages. Because the new insured mortgages were profitable for lenders and attractive to borrowers, they quickly created a new improved mortgage market without stressing the federal budget. Stringent FHA guidelines, however, distorted housing architecture, construction practices, and urban geography by rewarding builders of sprawling suburban developments comprising identical homes inhabited by identical (in terms of race and class anyway) people. The new policies also sowed the seeds of future financial calamities, including the Savings and Loan debacle of the 1980s and the recent subprime mortgage crisis.

Similarly, regulators inadvertently spurred the invention of revolving credit, the direct ancestor of the credit card, through the imposition of Fed Reg W. In one of many efforts to tamp down on inflationary pressures during and after World War II, the government heavily restricted the use of installment credit but did not effectively regulate traditional open accounts (like bar tabs). The loophole allowed lenders to create a new hybrid form of credit that, like an open account, did not have to be repaid on a fixed schedule but that, like installment credit, charged interest on outstanding balances. Without revolving credit and new technologies like Charga-Plate and Addressographs already in place, Hyman asserts, Frank McNamara of

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Diner's Club International fame could not have had his credit card epiphany and without experience with department store revolving credit consumers would not have been prepared to accept bank cards. So, while regulators have not forced Americans to borrow unprecedented sums in recent decades, they did initiate development of the environment that invited (or perhaps lured) them to do so.

Other examples of the unintended negative consequences of government policies abound. In an attempt to stop urban riots, many of which were in part motivated by rioters' desire to destroy ghetto retailers' credit records, the government pushed lenders to issue credit cards to low-income households, often with disastrous results. Finally, the demise of traditional relationship banking was accelerated, if not outright caused, by the Equal Credit Opportunity Act of 1974 and 1976. In short, most of *Debtor Nation*'s chapters hold up well, but the book's framing and overall conclusion should give pause.

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