An Unlikely Alliance: How Experts and Industry Transformed Consumer Credit Policy in the Early Twentieth Century U.S.

Elisabeth Anderson
Northwestern University
Department of Sociology
1810 Chicago Ave.
Evanston, IL 60208
aeander@u.northwestern.edu
202-361-7702

Bruce G. Carruthers
Northwestern University
Department of Sociology
1810 Chicago Ave.
Evanston, IL 60208
b-carruthers@northwestern.edu
847-491-5415

Timothy W. Guinnane
Department of Economics
Yale University
Box 208269
New Haven, CT 06520-8269
timothy.guinnane@yale.edu
203-432-3616

Submission date: September 11, 2012
Re-submission date: October 18, 2013
Final version: February 11, 2014

Word count: 12,907

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Abstract

Despite the recently demonstrated importance of consumer credit for the economic health of nations and families, little is known about the history of consumer credit markets and their regulation. An important chapter in the history of consumer credit regulation came between 1909 and 1941, when policy experts at the Russell Sage Foundation (RSF) engaged in a national campaign to transform small loan markets and policy in the U.S. Concentrating its efforts on state-by-state passage of the Uniform Small Loan Law, the Foundation's political success hinged upon an alliance with the American Association of Personal Finance Companies (AAPFC). While most scholarship portrays experts as being dominated or co-opted by industry, our case provides a countervailing example. Far from controlling RSF experts, lenders became dependent on the Foundation for legitimating their political lobbying and their business activities. We explain how the Foundation built its expert reputation through a process of *reputational entrepreneurship*, and we trace how RSF experts deployed this reputation as a power resource in their negotiations with small loan lenders.

Introduction

The relationship between politics and markets has perplexed social science since the time of Adam Smith. Sociologists, economists and political scientists have devoted much attention to understanding how organized economic interest groups influence economic policy (e.g. Fligstein 2001, Mueller 2003). However, social scientists have paid much less attention to how "disinterested" political actors—particularly policy experts—influence market formation and regulation. If lack of interest necessarily means lack of influence, then experts clearly do not matter. But the policy process is not so simple, as we detail below, and it turns out that in some circumstances disinterest, which might seem to be a liability, can in fact be an important political resource.

At the nexus of politics and markets, some kinds of policy have attracted more scholarly attention than others. Trade protection and tariffs, industrial policy, and environmental and labor market regulations, in particular, have been the focus of much research. But despite the recently demonstrated importance of consumer credit for the economic health of nations and families (Barr 2012), little is known about the history of consumer credit markets and their regulation. We seek to address the lack of attention to both policy experts and consumer credit by examining how experts at the Russell Sage Foundation (RSF) formed an unlikely alliance with small loan lenders to create, regulate and legitimate a new consumer credit market in the early twentieth century. Whereas most research on the role of expertise in economic policymaking suggests that experts tend to be dominated by more powerful industrial interests, in our case, the opposite is true. Far from controlling experts at the RSF, small loan lenders found themselves dependent on the Foundation for legitimating both their political lobbying and their business activities. And rather than consider where the content of the RSF experts' ideas came from (Anderson 2008), here we address how their carefully constructed reputation for *disinterested expertise* gave their ideas political significance, and how expertise factored into their ability to manage a number of key political relationships with allies and rivals.

Background

Nearly a century before consumer advocate and legal expert Elizabeth Warren led the campaign to create a Consumer Financial Protection Bureau, experts at the Russell Sage Foundation began their own fight against loan sharking in the United States. The Russell Sage Foundation was founded in 1907 through a $10 million grant from Margaret Olivia Sage, widow of the eponymous financier and the Foundation's first president. According to its charter the Foundation was to maintain a fund and apply the income to "the improvement of the social and living conditions in the United States of America ... to use any means for that end which from time to time shall seem expedient ... including research, publication, education, the establishment and maintenance of charitable or benevolent activities, agencies and institutions" (Hammack 1994: 3). In spite of the late Russell Sage's reputation for unscrupulous business dealings, miserliness, and sexual infidelity, his wife's reputation—built up over decades of dedicated charitable activity with the New York Women's Hospital, the Emma Willard Association, the National American Woman Suffrage Association, and fundraising efforts to benefit soldiers during the Spanish-American War—was very good (though not stellar enough to gain her admittance into the highest echelons of New York society) (Crocker 2006). Her public stature, combined with the enormous size of her gift and the Foundation's bold statement of purpose, created an immediate flurry of enthusiasm evident in New York newspaper coverage and in the public statements of the city's leading social workers and academics (Glenn, Brandt and Andrews 1947).

But generous funding from one of New York's most prominent female philanthropists was not the only source of the Sage Foundation's prestige. Margaret Olivia Sage's closest advisor and the Foundation's vice president—and president after her death—was Robert de Forest, one of New York City's most well-connected public citizens. A graduate of Yale College and Columbia University Law School, he came from an old and wealthy New York family and was a practicing corporate lawyer when he began to get involved in philanthropic activities. Eventually he devoted himself fully to philanthropic work, serving as the president of the Charity Organization Society of New York for 43 years, as president of the Metropolitan Museum of Art for seventeen years, as founder of the New York School of Social Work, and as a board officer at the American Red Cross, the National Housing Association, the American Federation of Arts. He also helped found the Provident Loan Society of New York, which sought to undercut exploitative pawn shops by offering low interest rates on small loans. By becoming its vice president, de Forest joined Sage in bestowing upon the Foundation his impeccable public reputation and enormous social capital (Hijiya 1980).

The Foundation's General Director, John M. Glenn, was of similar lofty pedigree, as were many of the members of its board of trustees. Stemming from a "prominent" Maryland family, Glenn was president of the Supervisors of City Charities of Baltimore before moving to New York to head the Russell Sage Foundation. His wife, daughter of a successful Baltimore banker, was also a leading member of the social work community, having served in leadership positions in various charity organizations in Baltimore and New York City.[1] The founding board included Cleveland H. Dodge, the blue-blooded president of the Phelps-Dodge Mining Company, Y.M.C.A. president, and close friend of Woodrow Wilson[2]; Daniel C. Gilman, the first president of Johns Hopkins University; Robert C. Ogden, a wealthy New York merchant

[1] "MRS. J.M. GLENN, 70, A WELFARE LEADER: Noted Worker in Several Fields is Dead after being Ill for Several Weeks." New *York Times* Nov 5, 1940, pg. 25.
"J.M. GLENN IS DEAD; SOCIAL WORKER, 91: Served as General Director of the Russell Sage Foundation for its First 24 Years." *New York Times* Apr 21, 1950; pg. 24.
"Yerkes' Big Scheme: Chicago Promotor Has Captured London Subways: Will Americanize the System: The Syndicate is Composed of British and United States Financiers, Maryland Trust Company the Agent in the Country." *Oswego Daily Times,* June 7, 1901, p. 3.
[2] "CLEVELAND H. DODGE, PHILANTHROPIST, DIES." *New York Times* June 25, 1926, pg. 1.

who funded educational institutions for Southern blacks;[3] Helen Gould, philanthropist and heir of the railroad tycoon Jay Gould;[4] Gertrude S. Rice, a founder of the Charity Organization Society of New York; and Louisa L. Schuyler, a great-granddaughter of Alexander Hamilton and founder of the State Charities Aid Association and the first nursing school in the U.S.[5] The trustees were chosen because of their extensive practical experience with various social welfare projects, but also because they were members of the social elite with names that carried weight in Northeastern reform circles.

The RSF soon joined a tight-knit community of reform-oriented policy activists and experts active in New York City during the first decades of the twentieth century (Brown and McKeown 1997: 43). The home organizations of these activist intellectuals included colleges and universities (such as Columbia University, New York University, the New York School of Philanthropy, and the New School for Social Research), as well institutions operating outside the academy, such as the National Consumers' League, the American Association for Labor Legislation, the National Child Labor Committee, and the National Association for the Advancement of Colored People. The hub of this network was the United Charities Building on Fourth Avenue in Manhattan, where the Russell Sage Foundation had some of its office space and which also housed DeForest's Charities Organization Society, the Consumers' League, and other prominent reform organizations. The Sage Foundation's main building was constructed just down the street in 1913. Through geography, collaboration and personal relationships, the RSF and its staff soon became central to the Progressive Era New York social reform scene. Part of its

[3] "HONOR THE MEMORY OR ROBERT C. OGDEN: His Associates Pay Tributes." *New York Times* Oct 27, 1913, pg. 5.
[4] "MRS. F. J. SHEPARD DIES OF A STROKE: Former Helen Gould, Famous for Philanthropy, Stricken at her Summer Home." *New York Times* Dec 21, 1938, pg. 1
[5] HARDING PRESENTS ROOSEVELT MEDALS: President Pays Tribute to Miss Louisa Schuyler, Prof. H.F. Osborn and Gen. Wood. *New York Times* Jun 16, 1923, pg. 11.

indispensability stemmed from its role as funder to a number of major projects involving various organizations, such as the ambitious Pittsburgh Survey, a sociological study of working-class living and employment conditions which culminated in six volumes published between 1909 and 1914. Participation in this largely middle-class community linked the social status of the Foundation's elite board with the growing public prestige of the social sciences.

As a leading member of the New York City's social reform community, and as a major player in the national social work community (via the Charity Organization Department), the RSF was part of an explosion of social-scientific research being conducted across a variety of governmental and non-governmental institutions during the Progressive Era and beyond (Agnew 2004, O'Connor 2001, Rodgers 1998, Recchiuti 2007, Walters and Bowman 2010: 44). Policy experts and social scientists provided the information governments needed to pursue policy goals as diverse as poverty reduction, public health, and economic growth. New ideas about "scientific philanthropy" transformed how private charitable foundations, including the RSF, operated (Bremner 1956, Franklin 1986, Lagemann 1989). Particularly in an era in which American politics was dominated by the patronage system and plagued by the corruption this system often produced, policy experts like those at the RSF commanded credibility based on their claims to non-partisan, "objective," rational social-scientific knowledge (Skocpol and Rueschemeyer 1996, O'Connor 2001). Such credibility did not necessarily guarantee influence, however; actually shaping the course of policymaking typically required more than simply "speaking truth to power." In the case of the RSF and small loans reform, it required building an alliance with the interest group which stood to be most affected by the regulations the Foundation proposed.

Building on de Forest's involvement in the New York Provident Loan Society and responding to numerous personal appeals for help from victims of exploitative lenders in New

York City (Crocker 1999), the newly-established Russell Sage Foundation first engaged the small loans problem in 1909. In the early twentieth century, credit for working-class people looked quite similar, in many ways, to how it does today. Then as now, lower- and even many middle-income borrowers could not rely on banks or credit unions to meet their credit needs. Instead, they turned to the pawn shops, chattel mortgage lenders and salary lenders which dotted the urban landscape and lured the impecunious and desperate with promises of quick and easy cash (Woloson 2009; Calder 1999; Mayer 2010; Hyman 2011). These lenders charged very high interest rates—up to 400% annually or higher –on loans ranging from $10 to $300 and accepted personal possessions or future wages as collateral. Specifically, pawnbrokers lent on personal possessions turned over to the lender, who retained the right to sell the items if the loan was not repaid in a certain amount of time. Chattel mortgage lenders—later called "personal finance companies"—lent primarily on furniture that remained in the borrowers' possession but could be seized in case of default; salary lenders usually lent smaller amounts, accepted future wages as collateral, and sometimes, through agreements with employers, garnished payments directly from borrowers' weekly or monthly wages. These businesses' shark-like reputation stemmed from their tendency to structure loans in ways that made it nearly impossible for low-income borrowers to ever make progress in paying down the principal (Mayer 2010 4-5).

Borrowers included a wide range of poor, working- and lower-middle-class workers. One loan agency's ad gives a sense of the type of people who represented typical small loan borrowers: "Loans to ladies and gentlemen. Wholesale and retail clerks, firemen, school teachers, mail carriers, railway, and all salaried people with steady positions…" (cited in Mayer 2010 29). Loan companies and pawnshops may have preferred clients with reliable sources of income, but poor widows with unsteady incomes as well as unemployed and marginally employed workers also relied on them to get by. Although the popular image of the small loans borrower may have been that of a profligate gambler with a drinking problem, in reality many borrowers were in fact "respectable" people who faced either an unexpected drop in income due to job loss, or unexpected expenses due to sudden personal or family crisis, particularly illness.

Although most states had usury laws to cap interest rates (typically at 6 to 8 percent per annum), small loan lenders circumvented these regulations by tacking on exorbitant fees, premiums, and commissions. Then, as now, borrowers often fell victim to "tricks and traps" they could not fully comprehend (Warren 2010 391; Mayer 2010 33-41). Such practices were illegal, but persisted anyway because usury laws were weakly enforced and placed the burden of prosecution on the debtor, and because low wages, unemployment, and unexpected expenses created overwhelming demand for credit, even when offered at very high interest rates (Robinson & Nugent 1935; Calder 1999; Mayer 2010). As a result, low-income workers often found themselves caught in cycles of debt that were very difficult to escape. In many respects, then, the RSF's efforts anticipated contemporary concerns about "predatory lending" (Massey 2005, Stegman 2007).

In 1909 the RSF commissioned two Columbia University graduate students to study local lending conditions, and soon thereafter, hired one, Arthur Ham, to head a Department of Remedial Loans. Initially, as the department's name suggests, Ham focused on promoting the development of remedial loan societies. These were loan agencies, modeled after deForest's Provident Loan Society, which were funded by public-minded investors and which charged low interest rates while capping shareholder dividends. Ham believed that these societies would "provide such competition as would result in an improvement of the methods commonly employed by money-lenders and to afford an object lesson that would attract reputable capital into the business."[6] When a few years' experience proved him wrong (Woloson 2009: 174-80),[7] Ham shifted his attention to regulating the commercial small loans market and attracting "legitimate" lenders into it. By 1913 Ham had concluded that this could only happen if usury laws were changed to allow commercial lenders to charge a higher rate of interest.[8]

By 1913 the policy proposal that the RSF advocated most forcefully was its Uniform Small Loan Law.[9] The USLL was a model law which Ham hoped would be adopted without modification by as many states as possible. As such, it was part of a movement begun in 1892 with the founding of the National Conference of Commissioners on Uniform State Laws, known today as the Uniform Law Commission, an organization whose mission is to draft and promote uniform legislation in areas as diverse as commercial law, marriage and divorce, and criminal procedure.[10] Ham hoped uniformity in small loans legislation would not only decrease confusion and improve transparency for borrowers; it would also reduce the risk of a regulatory "race to the bottom" in an increasingly multi-state industry. In addition to requiring increased regulation of the small loan business by state banking departments or similar authorities, the law raised the legal interest rate on loans of $300 or less to 3.5 percent per month, or 42 percent per year. The broad success of the Uniform Small Loan Law—it was passed in 34 states between 1914 and 1943—did more than simply provide greater protection to low-income borrowers. It actually brought into being a new consumer credit industry of "42 percent lenders," as they came to be

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[6] Arthur Ham. September 23, 1921. "The Trend and Progress of the Movement to Improve Small Loan Conditions: Address before the Seventh Annual Convention of the American Industrial Lenders' Association." Library of Congress Russell Sage Foundation Archive, Box 2.

[7] Walter Hilborn. June 22, 1928. "W.S. Hilborn Defends Higher Interest Rates Under Small Loan Law." St. Louis Times. Library of Congress Russell Sage Foundation Archive, Box 28.

[8] Letter from Arthur Ham, RSF, to Carlton S. Pierce, New Jersey State Senate. March 19, 1913. Library of Congress Russell Sage Foundation Archive, Box 30.

[9] Letter from Arthur Ham, RSF, to Carlton S. pierce, New Jersey State Senate. March 19, 1913. Library of Congress Russell Sage Foundation Archive, Box 30.

[10] The RSF supported other model laws in the area of consumer credit, but none had the importance of the USLL (see Glenn, Brandt and Andrews 1947: 544).

called. To a greater or lesser extent these legitimate lenders replaced loan sharks in many cities, and came to supply a substantial proportion of urban workers' credit needs.

Over the approximately thirty years that the RSF spent actively promoting the USLL, the aspect of the law that provoked the most heated political opposition was the interest rate. Many legislators rejected the idea that poor people should pay 42 percent interest on small loans, while wealthy borrowers and businesses paid far less for larger loans. Such high rates smacked of usury, a crime that offended the public conscience and violated traditional Christian teachings. They also challenged the precedent set by "sacrosanct" usury laws,[11] which had been in operation in most states since the mid-1800's, albeit ineffectively (Robinson and Nugent 1935).

To convince states to adopt the controversial law, and to ensure that the law could be implemented successfully, the RSF needed to do two things. First, it needed to persuade skeptics that the USLL's high statutory interest rate was indeed necessary. To accomplish this, it relied heavily on its *public reputation for disinterested expertise*, a form of symbolic capital (Bourdieu 1984) that was the most important political resource RSF personnel used to influence small loans policy and lenders. The social capital and prestigious reputations of the Foundation's elite leadership facilitated RSF staff's ability to lay claim to this expertise, but it was not enough. To justify this claim, staff members had to *perform* expertise through a variety of activities. The first part of this paper will examine how the RSF built and deployed its expert reputation through a process of reputational entrepreneurship (Fine 1996).[12]

Second, the RSF had to secure the political cooperation of the group of lenders the USLL was designed to regulate. This, too, hinged on the foundation's expert reputation. Although the

[11] Editorial in the Asheville, NC Times. March 30, 1930. "The Remedy for 'Loan Sharks'." Library of Congress Russell Sage Foundation Archive, Box 42.
[12] Whereas Fine (1996) is interested in entrepreneurs who seek to burnish or tarnish the reputations of historical figures, we see RSF actors as engaging in a process of reputational entrepreneurship on their own behalf.

RSF was initially forced to make concessions to the lenders, who had formed the American Association of Personal Finance Companies (AAPFC)[13], it soon was able to turn the tables and subordinate them. The second part of this paper will explain how this small foundation used its reputation for disinterested expertise to exert control over the political and business activities of a multi-million-dollar industry. To develop a clear understanding of why the RSF was able to dominate the AAPFC in this way, we also consider the Foundation's failed attempts to create a similar relationship with two other groups, the Legal Reform Bureau for the Elimination of the Loan Shark Evil (LRB) and the Credit Union Extension Bureau (CUNEB). Through this comparison, we draw some lessons about the conditions under which disinterested experts might gain the upper hand over industry interest groups in politics.

Policy Expertise and Market Regulation

Existing sociological research on the role of expertise in economic and other policymaking has focused on whether and under what conditions experts influence political decision-making. Sociological analysis of the influence of experts on policy tends to suggest that the closer experts get to government, the less intellectually autonomous they become (Merton 1968; Shils 1965; Banfield 1961; Brint 1990, 1994). Even when policy experts are not directly part of the state bureaucracy, their independence attenuates as soon as they step into the political fray. Often, experts are seen to be overtly or covertly, wittingly or unwittingly representing class interests. Many scholars contend that experts are either directly financed (and therefore controlled) or ideologically co-opted by the power elite (Nelkin 1975, Barrow 1993, Kurzman

[13] This association of small loan lenders underwent several name changes over the course of its history. For consistency's sake we use the American Association of Personal Finance Companies, the name it used in the 1930s and 1940s, but other names included the American Association of Small Loan Brokers in the 1910s and the American Industrial Lenders' Association in the 1920s.

and Owens 2002, Domhoff 2009, Domhoff and Webber 2011). They argue that intellectuals often make "scientific" arguments that in effect sanction the existing social order. It follows that experts working at privately funded research foundations such as the Rockefeller and Sage Foundations reproduced cultural hegemony and naturalized capitalist domination.

Whereas many scholars contend that policy experts are controlled by powerful moneyed interests, a few argue that experts can in fact exert "independent" influence on policymaking (Heclo 1974; Skocpol and Finegold 1982; Skocpol and Reuschemeyer 1996; Berman and Pagnucco 2010). For example, Skocpol and Finegold (1982) argue that agricultural economists *used* the Agricultural Adjustment Administration (AAA) as an institutional apparatus to further their own policy ideas. Elsewhere, Skocpol characterizes the Progressive Era American Association for Labor Legislation as a group of "social science professionals and other 'experts'… partially autonomous from both business and labor" (quoted in Barrow 1993: 136). Skocpol and Reuschemeyer (1996) argue that policy experts occupy a unique "third party" position, at least partly independent from capital, labor and the state. Experts can use the credibility bestowed by this partial autonomy to wield influence greater than their numbers or material resources would otherwise allow.

Though economic sociology has explored the relationship between politics and markets on many fronts (see eg Block and Evans 2005; Swedberg 2003 158; Fligstein 2001, 2005; Granovetter 2005), it rarely considers the role played by policy experts in mediating this relationship. Following the "Chicago school" theory of regulatory capture (e.g., Stigler 1975), scholars appreciate that regulated industries have a substantial incentive and ability to influence regulatory agencies, using a variety of political and other means. Schneiberg and Bartley (2001) and Bartley and Schneiberg (2002) examine regulation as one avenue through which politics and markets intersect and show that political forces outside the regulated industry affect types of regulation. Unlike us, however, they do not focus on the role experts play in this regard.

In this paper, we consider the question of how experts establish their reputation for expertise in first place, and then how they use it as a political resource. The traditional exemplars of expertise are the professions, but their markers of expert status were unavailable to RSF personnel. Professional experts typically rely on formalized credentials and state-sanctioned licenses to certify their authority and signal their legitimacy, both to other members of the professional field, and to the public at large (Abbott 1988). Expert organizations, such as contemporary "think tanks," build their institutional expertise from the formalized professional credentials of their staff; for example, they establish expertise in economic policy by hiring people with PhDs in economics. Although they all possessed advanced academic degrees, simple reliance on credentials was not sufficient for the directors of the RSF Department of Remedial Loans to establish an expert aura. Instead, they had to *construct* their reputations via the deployment and performance of social science knowledge and through bilateral relations with other actors—particularly lenders—in the small loan field. Our case therefore reveals how experts operating outside the system of professions can establish their reputation.

Reputational Entrepreneurship and Creating Expertise

The directors of the Department of Remedial Loans came from a variety of academic and professional backgrounds. The first, Arthur Ham, began working at the RSF directly after completing a master's degree in economics from Columbia University. Ham drafted the original version of the small loans bill that the Foundation continued to refine and promote for the next three decades. He left the Foundation in 1919; his successor, Walter Hilborn, was an experienced

New York lawyer who went after predatory lenders both as a private attorney and as the Deputy Assistant Attorney General of New York. In 1925, the directorship was taken over by Leon Henderson, an economist who had taught at the University of Pennsylvania and served as Deputy Secretary of State in Pennsylvania. When Henderson left the RSF in 1934, he was succeeded by his assistant Rolf Nugent. Nugent, an Amherst graduate with a PhD in economics, published several articles and books on consumer credit and directed the remedial loans department until it was shuttered in 1946.

Though the directors of the Sage Foundation's Department of Remedial Loans possessed advanced academic and professional degrees, the RSF's reputation for expertise could not derive from the credentials of its staff in this simple way. At the time of the RSF's founding, social science disciplines were simply not developed enough to bestow expert authority on organizations that employed social scientists (Fourcade 2009). Instead, the Foundation succeeded in creating an image of expertise through a process of reputational entrepreneurship. Most centrally, RSF staff became publicly recognized experts by conducting and publicizing "social scientific" research into the problem of small loan lending. These investigations began in 1907, when the Foundation offered research fellowships to Arthur Ham and his fellow Columbia University graduate student, Clarence Wassam, and both chose to study the small loan industry.[14] Ham's thesis provided an overview of the chattel loan industry in New York and Philadelphia, based on a review of state laws, existing reports, newspaper accounts, small loan company accounting records, and personal experiences with small loan borrowing (Ham 1909). After finding that the loan shark problem was a pervasive cause of poverty and distress among the low-income population, Ham and Wassam both concluded that: (1) the demand for small loans was

[14] Arthur Ham. September 23, 1921. "The Trend and Progress of the Movement to Improve Small Loan Conditions: Address before the Seventh Annual Convention of the American Industrial Lenders' Association." Library of Congress Russell Sage Foundation Archive, Box 2.

high; (2) usury laws made it impossible for legitimate small loan lenders to operate at a profit; (3) the industry was therefore dominated by illegal lenders who charged extortionate rates; and (4) the solutions to the problem involved creating remedial loan societies, educating the public and crafting new legislation (Ham 1909; Robinson and Nugent 1935). Armed with these "scientific" findings, Arthur Ham became the first director of the Foundation's Department of Remedial Loans.

To raise public awareness and establish the Foundation's reputation, Ham frequently referred to his graduate work and subsequent research as the basis for his, and therefore the RSF's, authority. For example, in a letter sent to various newspaper editors in 1910, Ham wrote, "Persuaded of the national spread and steady increase of this [loan sharking] business by the enormous data obtained in a year's searching investigation, the Russell Sage Foundation is prepared to carry a war of extermination into every city in the land."[15] Ham also typically cited the Foundation's research activities when he sought to influence small loan legislation. A letter he wrote to Governor Foss of Massachusetts in 1911 to endorse a bill to create a state supervisor of loan agencies began: "The subject of small loans is one that has for several years occupied the time of one department of the Sage Foundation. We have made several investigations and studies of the subject from different angles."[16] Similarly, in a letter to the governor of Pennsylvania in 1915, he justified his authority to endorse a small loans bill by claiming, "The Russell Sage Foundation has been engaged during the past six years in a study of the small loan business."[17]

What were these studies? The record of Ham's research activity during his tenure at the Foundation is not particularly clear. Given his extensive work in other areas, he probably lacked

[15] Arthur Ham. 1910. Library of Congress Russell Sage Foundation Archive, Box 55.
[16] Letter from Arthur Ham to Governor Eugene N. Foss of Massachusetts. September 13, 1911. Library of Congress Russell Sage Foundation Archive, Box 24.
[17] Letter from Arthur Ham to M.G. Brumbaugh, Governor of Pennsylvania. June 1, 1915, Library of Congress Russell Sage Foundation Archive, Box 44.

the time to conduct studies as comprehensive as his master's thesis. But Ham did pursue a few small research projects. For example, in 1910 he conducted an informal survey of remedial loan societies to solicit managers' impressions of the character, "deservingness," and other characteristics of salary loan borrowers.[18] In 1911 he published results of an investigation that found that in cities with a population of 30,000 or more, there was one loan shark victim for every 20 residents (Ham 1911). In 1917 he published a small volume of tables calculating the amount of interest a small loan borrower would have to pay, depending on the rate, size, and duration of the loan (B.B. 1917). In addition to these analyses, he produced various articles intended to raise public awareness of the loan shark problem. These tended to involve anecdotal horror stories about unfortunate loan shark victims, vivid descriptions of the sordid tactics employed by usurious lenders, guidelines for how to set up remedial loan societies and credit unions, and optimistic pronouncements about how these institutions, alongside improved regulation and oversight measures, might solve the small loans problem (e.g. Ham 1912; 1921).

The difference between expertise and the reputation for expertise is underscored by the fact that the Foundation's key policy recommendation—the 3.5 percent monthly interest rate authorized by the USLL—was in fact not based on any sort of systematic analysis. It actually arose out of a strategic political compromise with a powerful group of small loan lenders (the details will be discussed below). The non-scientific basis of this key feature of the USLL did not, however, prevent Foundation representatives from publicly claiming that the rate was "scientific" and based on "thorough study."[19] Thus, while the Foundation's reputation for

[18] Arthur Ham to John Glenn. June 3, 1910. Library of Congress Russell Sage Foundation Archive, Box 55;
[19] See, for example: Russell Sage Foundation. 1920. "Endorsements Urging the Passage of Senate Bill No. 95, Known as the Uniforms Small Loan Law." Library of Congress Russell Sage Foundation Archive, Box 16;
Letter from Walter Hilborn, RSF, to W.C. Sproul, Governor of Pennsylvania. May 9, 1919. Library of Congress Russell Sage Foundation Archive, Box 44;
Letter from Walter Hilborn, RSF, to John M. Brooks, Chairman of the Connecticut Senate Banking Committee. March 1, 1919. Library of Congress Russell Sage Foundation Archive, Box 12.

expertise was grounded, in part, on actual social-scientific investigation, it also derived from some degree of posturing. When it came to establishing credibility as a policy expert, the appearance of objectivity could sometimes be at least as effective as substantive research and actual knowledge.

The success of the RSF's reputational entrepreneurship is evident in newspaper articles on the small loan subject, where it was frequently cited as having studied the matter rigorously for years and as being the preeminent expert in the field. Newspapers coverage of the RSF's small loans reform campaigns in various states referenced the knowledge and experience of Department of Remedial Loans staff—*not* the social status or reputations of the Foundation's leadership and board. It was the names of these independently-acting directors—Arthur Ham, Walter Hilborn, Leon Henderson and Rolf Nugent –that came to be associated with small loan reform. For example, a 1913 headline in *The Jersey Journal* announcing Ham's cooperation with a local anti-loan shark group prominently referred to him as an "expert".[20] In the 1920s, newspaper articles announcing the presence of Ham's successor, Leon Henderson, in Atlanta, St. Louis, and Providence also described him as an "expert."[21] The *Atlanta Constitution* explained that Henderson was in the city to offer his "expert advisement" to the Atlanta Legal Aid Society and that his visit was part of "an investigation that is nation-wide in scope." By the 1920s, the Russell Sage Foundation's reputation as one of the country's preeminent authorities in the area of small loans and consumer credit reform had been solidified.

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[20] The Jersey Journal. February 28, 1913. "Say Martin Bill is Just What the Loan Sharks Want: So Says Arthur H. Ham, Expert for Interchurch Federation Which is Fighting Money Lenders." Library of Congress Russell Sage Foundation Archive, Box 30;

[21] The Atlanta Constitution. July 9, 1927. "Expert Here Aids 'Loan Shark' War." Library of Congress Russell Sage Foundation Archive, Box 16;
The Providence Journal. February 22, 1928. "Small Loan Laws Upheld by Expert: Russell Sage Foundation Director Opposes Three Bills Before House." Library of Congress Russell Sage Foundation Archive, Box 46.
St. Louis Globe-Democrat. May 9, 1929. "Senate Body Refuses Cut on Interest, House Okayed: Russell Sage Foundation Expert Explains Why He Had Salary-Buying Feature." Library of Congress Russell Sage Foundation Archive, Box 28.

This reputation remained vulnerable, however, and so needed recurrent reinforcement. Critical to this performance was the RSF's ability to convince audiences that its policy recommendations were grounded in *disinterested* social-scientific research—in other words, that it did not stand to benefit from the reforms it promoted in any direct way. In spite of this careful self-presentation, many people still suspected that the Foundation was merely operating as a front for loan sharks, or that it was somehow profiting from the 42% interest rate it sought to legalize. For example, Fiorello LaGuardia, one of the RSF's most outspoken opponents, called the USLL an "inhuman, unconscionable, thieving proposition,"[22] and accused the RSF of using its research as a mere cover for usury.[23] Lacking any kind of formalized professional status markers to help legitimate its claims to expertise, the RSF had to constantly defend itself against these kinds of attacks.

<u>Deploying Expertise in Politics</u>

Once established, the RSF's expertise was deployed to reshape the legal rules governing small loan transactions. The RSF's chief policy goal was design and then passage of the USLL by states, and in pursuit of this it engaged in a number of political activities. For each, expertise was a critical political resource.

Conducting research and disseminating "impartial" information: As already mentioned, the staff of the Department of Remedial Loans conducted various studies of the loan shark problem and how to address it though public policy. Research activity was foundational to the RSF's claim to expertise; without it, it would have been unable to sustain any claim to special

[22] Hearings before the Subcomittee of the Committee on the District of Columbia House of Representatives, Seventy-First Congress, Second Session on H.R. 7628. April 17, 1930. Statement of Hon. F.H. LaGuardia. Library of Congress Russell Sage Foundation Archive, Box 120.
[23] F.H. LaGuardia. October 1932. "Usury—The Curse of Humanity." *Brass Tacks*, Vol. 1, No. 2. Library of Congress Russell Sage Foundation Archive, Box 14.

knowledge of the small loans issue. At first, the Department and its affiliates limited their research to the examination of small loans conditions in various cities, analyses of small loans borrowers and their reasons for borrowing, and summaries of existing legislation. Its publications included books (*A Credit Union Primer*, *Small Loan Legislation*, *Ten Thousand Small Loans*, and *The Regulation of Pawnbroking*, to name a few); pamphlets (including "The Use of Small Loans for Medical Expenses"); and articles appearing in magazines and academic journals.

When Rolf Nugent joined the Department of Remedial Loans in the early 1930s, the tenor of the Foundations' research changed. Unlike his predecessors, Nugent was interested in subjecting the small loan interest rate to rigorous scrutiny. Among his several scholarly publications was an article in the *Harvard Business Review*, in which he examined the impact of interest rate cuts on the number of small loan companies and the volume and average size of small loans in New Jersey, West Virginia and Missouri (Nugent 1933).

Direct lobbying: This strategy was more common in the RSF's early years, before the associated political risks became evident. In a number of states, the RSF initiated contacts with legislators, governors or non-governmental organizations to urge them to support the passage of the USLL. For example, in 1913, Arthur Ham initiated a lobbying campaign in New Jersey. He wrote the governor[24] and several state legislators[25] to urge them to endorse a bill which he had drafted in collaboration with the Jersey City Chamber of Commerce and the state Department of Banking. He defended his bill and attacked alternative bills in interviews with the press and at

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[24] Letter from Arthur Ham to James F. Fielder, governor of New Jersey, April 3, 1913. Library of Congress Russell Sage Foundation Archive, Box 30.

[25] Letter from Arthur Ham to Carlton B. Pierce, New Jersey state senator, March 19, 1913. Library of Congress Russell Sage Foundation Archive, Box 30;
Letter from Arthur Ham to Charles O'Hennessy, New Jersey state representative, May 26, 1913. Library of Congress Russell Sage Foundation Archive, Box 30.

hearings before the governor[26] and the legislature.[27] Eventually, Ham was able to enlist Senator Charles Egan to introduce the bill,[28] which was signed into law on March 23, 1914[29] and became the first USLL on the books.

Expert testimony and speeches: As the preceding example suggests, RSF representatives were frequently invited to present expert testimony before legislative committees and commissions, as well as to deliver addresses to various organizations around the country.[30] They used these opportunities to educate lawmakers and community members about the small loans problem, to promote the USLL, to discredit alternative measures, and to defend the reputation of the Foundation. For example, in 1930, Leon Henderson appeared before the US House of Representatives to testify in support of a uniform small loans bill being considered for the District of Columbia.[31] In 1931, he appeared before an investigative commission in Virginia, where he spoke at length about loan sharking, the history of the RSF's involvement in the small loans issue, and the "philosophy" behind the USLL. To assure the commissioners of the Foundation's legitimacy, he took pains to explain that the RSF had no financial interest in the

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[26] "Bill is attacked at hearing today." *The Trenton American*, April 9, 1913. Library of Congress Russell Sage Foundation Archive, Box 30;
"Say Martin Bill is just what the loan sharks want." *The Jersey Journal*, February 28, 1930. Library of Congress Russell Sage Foundation Archive, Box 30.
[27] Letter from Arthur Ham to W.N. Finley. February 10, 1914. Library of Congress Russell Sage Foundation Archive, Box 30;
"Long Debates on Loan Shark Bill." Newark News, February 10, 1914. Library of Congress Russell Sage Foundation Archive, Box 30.
[28] "Law to Control Loan Sharks." Kearny Press, January 10, 1914. Library of Congress Russell Sage Foundation Archive, Box 30.
[29] "Egan Loan Shark Law Goes into Effect." Press release sent out by the Jersey City Chamber of Commerce. April 22, 1914. Library of Congress Russell Sage Foundation Archive, Box 30.
[30] See, for example: Arthur Ham. November 4, 1911. "Papers read Before Charities Conference: Paper by Arthur Ham, Agent of the Russell Sage Foundation." Library of Congress Russell Sage Foundation Archive, Box 4;
Leon Henderson. September 2, 1925. Speech before the American Association. Library of Congress Russell Sage Foundation Archive, Box 4;
Rolf Nugent. November 2, 1935. "Speech by Rolf Nugent for Paramount News." Library of Congress Russell Sage Foundation Archive, Box 33.
[31] Hearings before the Subcommittee on Judiciary of the Committee on the District of Columbia, House of Representatives, Seventy-First Congress, Second Session, on H.R. 7628. April 15 & 17, May 2, 3, 6, 19, and 20, 1930. Library of Congress Russell Sage Foundation Archive, Box 14.

small loans business.[32] Expert testimony occurred in other venues as well, such as speeches delivered before charity conferences and meetings of local Better Business Bureaus and the American Association of Personal Finance Companies.[33]

Media campaigns: RSF Department of Remedial Loans directors often wrote articles and sent letters to the editors of newspapers across the country in order raise awareness of the small loans problem and to drum up support for the USLL. For example, in 1912 and 1913, Arthur Ham penned five articles on loan sharking and on recent court cases involving high-rate lenders for *The Survey*, a leading journal of professional social work and social reform.[34] This strategy was especially important with regard to convincing the public that the 42 percent interest rate was justified, even though it was so much higher than the interest rate caps stipulated by state usury laws. To that end, in 1928 and 1929, Walter Hilborn and Leon Henderson published several editorials in Missouri, Delaware and Texas newspapers to defend the rate, which had recently come under attack in those states.[35]

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[32]"Investigation of the Small Loan Business in Virginia: Testimony of Mr. Leon Henderson" before the State Corporation Commission, November 10, 1931. Library of Congress Russell Sage Foundation Archive, Box 50.

[33] See, for example: Arthur Ham. November 4, 1911. "Papers read Before Charities Conference: Paper by Arthur Ham, Agent of the Russell Sage Foundation." Library of Congress Russell Sage Foundation Archive, Box 4;
Leon Henderson. September 2, 1925. Speech before the American Association. Library of Congress Russell Sage Foundation Archive, Box 4;
Rolf Nugent. November 2, 1935. "Speech by Rolf Nugent for Paramount News." Library of Congress Russell Sage Foundation Archive, Box 33.

[34] Ham, Arthur. "The Supreme Court and the Loan Shark." *The Survey.* January 13, 1912. Library of Congress Russell Sage Foundation Archive, Box 38;
Ham, Arthur. "Hard Times for the Loan Sharks." *The Survey.* November 30, 1912. Library of Congress Russell Sage Foundation Archive, Box 37;
Ham, Arthur. "Court of Appeals on the Loan Shark." *The Survey.* January 11, 1913. Library of Congress Russell Sage Foundation Archive, Box 38;
Ham, Arthur. "No Relief in Sight for the Loan Shark." *The Survey.* January 11, 1913. Library of Congress Russell Sage Foundation Archive, Box 38;
Ham, Arthur. "Remedial Loans Law for the District of Columbia." *The Survey.* February 13, 1913. Library of Congress Russell Sage Foundation Archive, Box 38.

[35] Hilborn, Walter. "W.S. Hilborn Defends Higher Interest Rates under Small Loan Law." *St. Louis Times*, June 22, 1928. Library of Congress Russell Sage Foundation Archive, Box 28.
Henderson, Leon. "Why Sage Foundation Okayed 42% Law." *St Louis Post-Dispatch*, February 19, 1929. Library of Congress Russell Sage Foundation Archive, Box 28.

Alliances with national, state and local interest groups: In the political environment of the early 20th-century, it became increasingly necessary for those who wished to influence policy to ally themselves with organized interest groups (Schweber 1996, Clemens 1997). The Foundation's growing reputation for expertise made it an attractive ally to interest groups that wanted to influence small loan regulation. The most important such alliance , with the American Association of Personal Finance Companies, will be discussed in greater detail in the next section, but the RSF also partnered with other state and local pressure groups in order to gain access in places where the RSF was unknown. Foundation experts came to see themselves as political coalition-builders and devoted much energy to courting local employers' and business associations, welfare organizations and citizens' committees.[36] Local and state-level organizations increasingly sought the RSF out, as well: by the late teens its Department of Remedial Loans frequently received letters and telegrams from welfare activists from around the country seeking information, legislative advice and strategic assistance.[37] In many states, these groups were vital in fighting on behalf of the small loan law and could mobilize local political resources that the RSF simply did not possess.

Henderson, Leon. "Russell Sage Loan Defended." *Wilmington Journal*, March 6, 1929. Library of Congress Russell Sage Foundation Archive, Box 14.
Henderson, Leon. "Small Loans Bill is Defended by Leon Henderson." Wilmington Every Evening, March 6, 1929. Library of Congress Russell Sage Foundation Archive, Box 14.
Henderson, Leon. "Truths vs. Half-Truths about the USLL: Justification of the Rate Employed. March 6, 1929. Library of Congress Russell Sage Foundation Archive, Box 48.
[36] Letter from Leon Henderson, RSF, to William L. Murphy, Oklahoma City attorney. June 24, 1932. Library of Congress Russell Sage Foundation Archive, Box 43.
[37] See, for example: Letter from Fred R. Johnson, Associated Charities of Boston, to Arthur Ham, RSF. January 28, 1916. Library of Congress Russell Sage Foundation Archive, Box 24;
Letter from H.D. Montgomery to Arthur Ham, RSF. January 6, 1915. Library of Congress Russell Sage Foundation Archive, Box 25.

Mutually Beneficial Subordination: The RSF and the AAPFC

In 1914, shortly after the RSF began its research and policy work, a group of lenders formed the American Association of Small Loan Brokers, later renamed the American Association of Personal Finance Companies (AAPFC), the name used throughout this paper. In doing so small loan lenders joined the 800 business and trade associations that already existed in the U.S. at that time (Calder 1999), a number which would continue to grow explosively in the following decades. Voluntary, not-for-profit national trade associations were formed in the late 19th and early 20th centuries for a variety of purposes. Before the Sherman Antitrust Act of 1890, foremost among these was to set prices and make production agreements; after this activity became largely illegal, associations' focus broadened to include things like professional development, establishing voluntary industry standards of procedure and conduct, political lobbying for and against state regulations, and solidarity-building through networking and social activities (Spillman 2012). Setting it apart from most trade associations, however, was the AAPFC's acute need to address its members' sordid reputation for "loan sharking." Accordingly, its primary goal was to bring small loans lending out of the shadows and make it respectable, law-abiding industry. The Association pursued this aim through a variety of public relations strategies, such as monitoring members' advertising content, encouraging them to maintain nicer-looking offices in better locations, and producing a newspaper that continually reinforced the message that they were there to help workers, not victimize them (Calder 1999).

In order for AAPFC members to transform their image, however, they needed to do more than just project respectability—they needed to actually become law-abiding businessmen. This could only happen, members believed, if state usury laws were changed to make it possible for small loan lenders to secure a reasonable profit. Soon after its formation the AAPFC began drafting and promoting regulatory legislation intended to legalize higher interest rates for small loans. This challenge to the RSF's leadership position in the small loan policy field did not go unnoticed for long. Tension between the two organizations grew in 1915, when Arthur Ham found himself forced to endorse a Pennsylvania bill drafted by the AAPFC that allowed lenders to charge service fees. Ham had long opposed such fees because he was convinced that they created opportunities for lenders to cheat their customers. In a private letter to a colleague, Ham explained that he was publicly supporting the Association's Pennsylvania bill because of pressure from C.H. Watts, the American Association chairman.[38] In front of the politicians, it was important to maintain the appearance of agreement; but privately, Ham was uneasy.

The AAPFC may have been among the RSF's most powerful rivals, but it was actually sympathetic to the overall goal of small loan regulation. The RSF began to recognize that it needed to forge some sort of compromise with the lenders in order to prevent future political defeats like the one in Pennsylvania. The cooperation of the small loan lenders was especially significant given that RSF experts believed that the solution to the usury problem lay in regulating the commercial small loan industry; clearly, such regulation would be more effective if lenders agreed with its basic tenets and were willing to be regulated. For these reasons, a strategic alliance with the AAPFC seemed to hold enormous potential. With this goal in mind, in March 1916 Ham held meetings with the American Association to begin hammering out a legislative plan of action to which both parties could subscribe (Robinson and Nugent 1935). In

[38] Letter from Arthur Ham, RSF, to W.N. Finley, National Federation of Remedial Loan Societies. March 23, 1915. Library of Congress Russell Sage Foundation Archive, Box 44, Document No. 1809.
The American Association also opposed a bill that RSF introduced in the District of Columbia. See Letter from Arthur Ham to William H. Baldwin. April 13, 1916. Library of Congress Russell Sage Foundation Archive, Box 14, Document No. 1844.

November, they met again to jointly craft a model small loan bill that became the Uniform Small Loan Law (USLL).[39]

The most important provision contained in the USLL was the maximum allowable interest rate. In order to win the Association's cooperation, Ham was forced to accept a higher rate than he had initially wanted: after three days of debate with the lenders, the USLL's interest rate was set at 3.5 percent a month, or 42 percent per year.[40] This figure was the product of compromise on both sides: whereas Ham had initially advocated a flat rate of 3 percent per month, the lenders had wanted a rate of 3 percent plus fees because "it is possible under the fee system to secure a little higher return."[41] After the RSF's initial acquiescence, however, the tables were soon turned as the RSF repeatedly gained the upper hand over the lenders, who increasingly depended on the Foundation for public legitimation and political support.

The RSF exerted control over the Association's political activities through written quasi-contractual agreements. These formal deals increasingly favored the RSF, while subjecting the Association to ever tightening control. The first such agreement was signed by the two parties at the close of the March 1916 meetings that produced the USLL. The two organizations agreed that neither would change nor introduce the bill in any state without first notifying and consulting with the other party.[42] This agreement seems only to have been binding on the Association, however—the RSF frequently introduced the USLL in various states without notifying or seeking the Association's approval. In contrast, when members of the American

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[39] "Agreement RE: Uniform Law." November 29, 1916. Library of Congress Russell Sage Foundation Archive, Box 4.
[40] Letter from L.C. Harbison to Clarence Hodson, December 20, 1916. Rockefeller Archive Center Russell Sage Foundation Collection, Box 25, Folder 193.
[41] Ibid.
[42] "Agreement RE: Uniform Law." November 29, 1916. Library of Congress Russell Sage Foundation Archive, Box 4.

Association introduced small loan legislation in Virginia in 1918[43] without consulting the RSF, they were formally rebuked. The AAPFC hastily passed a resolution, which stated: "no member…of this Association shall hereafter…introduce [or] endorse… any law…which is not…first agreed upon by the A.A. Association and the Russell Sage Foundation."[44] In 1919, the agreement between the lenders' association and the RSF was reaffirmed, this time giving the RSF the *exclusive* right to determine when to pursue the USLL in any given state.[45] The agreement required the other parties to seek the RSF's consent before pursuing legislative activity, but not vice versa. It did, however, grant all parties equal power in authorizing significant changes to the bill.

The Foundation's subordination of the lenders was actually beneficial to both parties. Despite efforts to clean up its act, the small loan industry was still tainted by the stigmatizing image of pawnshops and loan sharking (Woloson 2009). By allowing the RSF to take the lead with respect to legislative activity, lenders were able to take advantage of the Foundation's expert reputation to help build up their own image as respectable businesses. As one AAPFC member noted, "Mr. Ham, of the Russell Sage Foundation, enjoy[s] the confidence of the press and the public and we consider it to be of very great importance to establish working relations with [him]."[46] Moreover, the RSF's stamp of approval granted legitimacy to the American Association by allowing it to portray its policy demands as rooted in science and social welfare, rather than pure self-interest. For instance, lobbying materials produced by the American

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[43] "A Law Needed to Protect Borrowers of Small Sums." March 12, 1918. Library of Congress Russell Sage Foundation Archive, Box 50.
[44] [Resolution] Adopted by the American Association of Small Loan Brokers at a Meeting of the Executive Council held at Hotel McAlpin, New York City, April 24, 1918. Library of Congress Russell Sage Foundation Archive, Box 4.
[45] "Agreement between Russell Sage Foundation, Legal Reform Bureau, and American Industrial Licensed Lenders Assn. Concerning Uniform Small Loan Law," November 6, 1919. Library of Congress Russell Sage Foundation Archive, Box 4.
[46] Letter from Clarence Hodson to Frank Hubachek, November 2, 1916, Rockefeller Archive Center Russell Sage Foundatio Collection, Box 25 Folder 193.

Association stressed that the legislation it was promoting had been "drafted and endorsed by the Russell Sage Foundation,"[47] a "social service organization not operated for profit,"[48] whose Uniform Small Loan Law was based on "fact-finding studies."[49] This clean identity was important to the Association not only for political and commercial reasons, but for personal reasons as well. After years of vilification, the chance for small loan lenders to establish themselves as socially useful businesses came as a relief to many. Association members—and perhaps just as importantly, their wives and families—could, with the RSF's seal of approval, say to themselves and to the world that they were *not* loan sharks.[50] For these reasons, the Association needed the RSF's approval more than vice versa, so whenever the RSF called for a change to the USLL or to the terms of its various agreements with the lenders, the Association went along.

Indeed, while the AAPFC never missed an opportunity to publicize its relationship with the RSF and boost its own public image, the Foundation was often at pains to downplay its connection with the lenders. This tension came to a head in the spring of 1917, when the lenders published the text of its agreement with the RSF in the *Loan Gazette* trade journal without first obtaining permission from the RSF. Ham was upset: in a letter to the Association's National Secretary, George Kehr, he protested, "Unfortunately the American Association of Small Loan Brokers [the original moniker for the AAPFC] has not yet arrived at the point where the public is

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[47] Household Finance Corporation. December 15, 1929. "The Uniform Small Loan Law Proposed for the District of Columbia." Library of Congress Russell Sage Foundation Archive, Box 14.
[48] Illinois Association of Personal Finance Companies. 1935. "The Personal Finance Business in Illinois." Library of Congress Russell Sage Foundation Archive, Box 16;
Iowa Association of Personal Finance Companies. 1935. "The Personal Finance Business in Iowa. Library of Congress Russell Sage Foundation Archive, Box 18;
[49] New York Association of Personal Finance Companies. 1938. "Small Loan Legislation in New York." Library of Congress Russell Sage Foundation Archive, Box 33.
[50] As a legitimate entrepreneurs, AAPFC members could adopt the trappings and rituals of respectable business, such as hosting conventions in which family members also participated. For example, when Leon Henderson of RSF attended the AAPFC's annual convention in Providence in September 1925, he reported approvingly that the gathering was "marked by wholesome family interest" and that "[e]ntire families were in attendance" (Rockefeller Archive Center Russell Sage Foundation Collection, Box 25 Folder 191).

generally willing to accept it as a thorough-going reform organization. The publication of the memorandum…has simply added color to the belief in certain quarters that the 3-1/2% bill is a bill drawn by and in the interests of money-lenders which the Sage Foundation by some means has been induced to support."[51] Kehr, chagrined by Ham's rebuke, apologized and promised to make sure that future issues of the *Gazette* would be "more diplomatically edited."[52]

Throughout their 25-year history as supporters of the USLL, the RSF and the American Association maintained a basically positive working relationship. No doubt this was in large part due to the Association's sense that it had to cooperate with the Foundation in order to retain the favor of its most important ally. In 1924, for example, an Association representative commented: "There can be no question but that we would have failed in our effort without the help we have had from [the RSF] and there is no question but that we will fail if we do not continue to receive [the RSF's] help."[53] The RSF's approval gave the Association the ability to build for itself a public identity as a kind of social service organization—a profitable one, to be sure, but also one that was guided by the RSF's disinterested expertise and which served a higher social purpose. For this reason, the RSF was able to demand the lenders' subordination with respect to legislative activity in a way that was mutually beneficial to both parties. As Nugent stated at the meeting on the seventh draft of the USLL:

> It seems to me that the history of the association between the Foundation and the lenders is a shining example of what can be accomplished when representatives of two diametrical points of view meet in the spirit of good will and mutual understanding.[54]

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[51] Letter from Arthur Ham to George Kehr, March 5 1917. Rockefeller Archive Center Russell Sage Foundation Collection, Box 25 Folder 193.
[52] Letter from George Kehr to Arthur Ham, March 7 1917. Rockefeller Archive Center Russell Sage Foundation Collection, Box 25 Folder 193.
[53] Letter from L.C. Harbison to John Glenn. September 4, 1924. Rockefeller Archive Center Russell Sage Foundation Collection, Box 26, Folder 200.
[54] Nugent, Rolf. "Notes on the History of the Foundation's Relationship with the American Association." October 29, 1940. Library of Congress Russell Sage Foundation Archive, Box 4.

Unruly Partners: The Legal Reform Bureau and the Credit Union Extension Bureau

The RSF was able to form a decades-long working relationship with the AAPFC largely because the lenders willingly accepted the Foundation's dominance. In contrast, the RSF less successfully tried to exercise power over two other players in the small loans reform field. The first, the Legal Reform Bureau (LRB), was an organization founded in 1918 by a leading small loan businessman, Clarence Hodson, to change small loan laws in various states. The second, the Credit Union Extension Bureau (CUNEB), was established in 1921 by the department store tycoon and philanthropist Edward Filene, under the auspices of his own foundation, the Twentieth Century Fund. Filene hired a policy expert named Roy Bergengren to lead CUNEB and to promote the development of credit unions across the U.S. As the following analysis shows, the RSF's inability to subordinate these two organizations casts light on why it was able to dominant the AAPFC so completely.

The Legal Reform Bureau

Colonel Clarence Hodson was founder and president of the Beneficial Loan Society, one of the largest chains of small loan companies in the U.S. As such, he was also a member of the American Association of Personal Finance Companies. Hodson was, from the beginning, a maverick whom both the RSF and the Association found difficult to control. As early as 1916 he had already annoyed the Association's governing board when he threatened to violate the lenders' agreement with the RSF by introducing his own small loan bill, which allowed the charging of service fees, in the state of Delaware.[55] When the AAPFC threatened him with

[55] Letter from L.C. Harbison to Clarence Hodson, December 20, 1916. Rockefeller Archive Center Russell Sage Foundation Collection, Box 25, Folder 193.

expulsion, he apparently abandoned this plan.[56] In 1918, he was again censured by the Association for his involvement in the unauthorized Virginia campaign to introduce small loan legislation that did not conform to the specifications of the USLL.[57]

Hodson responded to these attempts to keep him in check by creating the LRB and using it to promote his own model small loan bill, which he stridently called the "Ideal Bill."[58] The RSF pointedly reacted to this encroachment by attempting to discredit Hodson publicly. In doing so, the RSF emphasized Hodson's status as someone with a direct financial interest in small loan legislation and contrasted this with its own financial "disinterestedness" in the USLL. In 1919, for example, Walter Hilborn, the acting director of the Remedial Loans Division who replaced Ham, received several letters from people in various states requesting information on the LRB. Hilborn replied that the organization was nothing more than a name under which Hodson was attempting to secure legislation to allow his Beneficial Loan Societies to conduct business in various states. Hilborn also argued that the "Ideal Bill" was "much more in the interest of the money lender than the Uniform Bill." He further tried to discredit Hodson by noting that no one other than Hodson and his Beneficial Loan Societies supported the Legal Reform Bureau.[59]

Hodson was party to the November 1919 agreement which put the RSF in charge of campaigning for the USLL and required the lenders to get the Foundation's consent for any

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[56] Letter from Arthur Ham to Charles E. Brown, Jr. December 26, 1916. Rockefeller Archive Center Russell Sage Foundation Collection, Box 25, Folder 193.

[57] American Association of Small Loan Brokers. 1918. "Adopted by the American Association of Small Loan Brokers at a Meeting of the Executive Council at Hotel McAlpin, New York City, April 24, 1918." Library of Congress Russell Sage Foundation Archive, Box 33.

[58] Hodson, Clarence. 1919. "Draft of Ideal Loan Shark Statute." Library of Congress Russell Sage Foundation Archive, Box 2.

[59] Letter from Walter Hilborn to Ambrose Tighe. February 15, 1919. Library of Congress Russell Sage Foundation Archive, Box 26;
Letter from Walter Hilborn to Katherin L. Van Wyck. March 3, 1919. Library of Congress Russell Sage Foundation Archive, Box 53;
Letter from Walter Hilborn to W.B. Wilson and others. March 27, 1919. Library of Congress Russell Sage Foundation Archive, Box 80, Folder 2.

lobbying activity they might undertake. [60] This agreement stipulated the abandonment of the "Ideal Bill" and called on the signatories to endorse the USLL. Hodson broke the agreement almost immediately: in January or February 1920, without the RSF's consent, he introduced an amendment to the Massachusetts small loan law which would raise the rate from 3 to 3 1/2 percent.[61] In response, RSF director John Glenn sent a letter to C.H. Watts, chairman of the American Association, demanding that the Association put a curb on the LRB's legislative activities.[62] Referring to the November 1919 agreement, Glenn said:

> The LRB has from time to time entirely disregarded this agreement and acted independently in introducing and supporting legislation in various states without the consent of the other parties to the agreement. The result has been very unfavorable to the Uniform Small Loan Bill. It has prevented its enactment in some places and has tended in others to encourage attacks on the law… Unquestionably, the status of the Uniform Law and the probability of its being enacted in states where it should be in force have been seriously diminished by the activities of the LRB. It is perfectly clear that the LRB is merely a camouflage for the Beneficial Loan Society. It has also made representations which should give the impression that it is closely allied with the Russell Sage Foundation. All these things are exceedingly objectionable to us and we cannot consent to continue our agreement or to cooperate with the [AAPFC] if the LRB is to continue to butt in. We must insist that the LRB shall entirely withdraw from all activity in connection with small loan legislation. We intend to give notice to the LRB, after hearing from you, that we consider our agreement of November, 1916 null and void as far as it is concerned. Of course, this Foundation is ready and glad to continue its relations with the [AAPFC] which have been so pleasant and satisfactory. We shall be forced, however, to withdraw entirely from the legislative field unless the [AAPFC] can check the pernicious activity of the LRB.

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[60] "Agreement between Russel Sage Foundation, Legal Reform Bureau, and American Industrial Licensed Lenders Assn. Concerning Uniform Small Loan Law," November 6, 1919. Library of Congress Russell Sage Foundation Archive, Box 4.

[61] Letter from Caro Coombs to John Glenn. February 13, 1920. Library of Congress Russell Sage Foundation Archive, Box 24;
Letter from Frank H. Pope to Walter Hilborn. February 2, 1920. Library of Congress Russell Sage Foundation Archive, Box 24.

[62] Letter from John Glenn to Charles Watts. September 1, 1923. Library of Congress Russell Sage Foundation Archive, Box 4.

In response to this threat, the AAPFC "did everything we thought would be conducive to the elimination of the Legal Reform Bureau."[63] These efforts may have had their intended effect for a time, as no mention of the LRB appears in the historical record for the next three years. Then, in February 1926, while he was in Frankfort, Hilborn's successor, Leon Henderson, ran into a man named Virgil Moore whom he surmised was secretly representing Hodson in Kentucky.[64] In the next month, Henderson learned that the Mississippi legislature was considering a small loans bill—"the worst work I have ever seen"—that resembled the USLL in form but that eliminated many of the provisions intended to protect the borrower. According to Henderson, "Although I have no proof of it, I naturally believe the Hodson interests were back of the Mississippi bill as well as the Kentucky and South Carolina bills which… also failed."[65]

In 1927 and 1928, Hodson and the LRB were involved in legislative campaigns in Wisconsin, Texas,[66] Minnesota,[67] Louisiana,[68] and South Carolina.[69] In early 1927, for example, an LRB agent appeared in Wisconsin, advocating for a small loans bill and trying to capitalize on the RSF's reputation by falsely claiming to represent the Foundation. This move was judged by Arthur Ham to be "the worst thing [Hodson] has done to date."[70] Expressing his frustration with Hodson's behavior, the RSF's director, John Glenn, again tried to strong-arm the AAPFC into exerting tighter control over the renegade lender. He wrote in a letter to L.C. Harbison of the

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[63] Letter from L.C. Harbison to John Glenn. December 3, 1923. Rockefeller Archive Center Russell Sage Foundation Collection, Box 26 Folder 200.
[64] Letter from Leon Henderson to John Glenn. February 17, 1926. Library of Congress Russell Sage Foundation Archive, Box 21.
[65] Memo from Leon Henderson to John Glenn. March 26, 1926. Library of Congress Russell Sage Foundation Archive, Box 27.
[66] "Will Confer on Loan Shark Law." Dallas News. September 20, 1927. Library of Congress Russell Sage Foundation Archive, Box 48.
[67] Memo from Leon Henderson to John Glenn. October 5, 1927. Library of Congress Russell Sage Foundation Archive, Box 26.
[68] Letter from Clarke Salmon to Leon Henderson. April 2, 1928. Library of Congress Russell Sage Foundation Archive, Box 22.
[69] 1928 Summary of Legislation for South Carolina. Library of Congress Russell Sage Foundation Archive, Box 46.
[70] Letter from Arthur Ham to John Glenn. February 23, 1927. Rockefeller Archive Center Russell Sage Foundation Collection, Box 24 Folder 187.

AAPFC that he was “tired of coquetting with [Hodson’s people] and that if there is no way of controlling them, we may have to give up the attempt to get laws passed.”[71] Any legislative campaign not initiated and controlled by the RSF, Glenn argued, gave the USLL’s cause a “black eye” and weakened the overall effort to spread the law.[72]

These attempts to control Hodson once again proved ineffective. In 1930, an LRB representative appeared again in Texas with a “little black bag of propaganda” to lobby for a 42 percent bill that did not meet the RSF’s requirements. As Glenn feared, LRB’s continued involvement in small loan campaigns blemished the RSF’s own image in these states. For example, a 3-page editorial appearing in a Texas newspaper did not distinguish between the two organizations, and characterized the RSF, the American Association and the LRB as a trio of greedy evildoers working in cahoots to take advantage of lower-income borrowers in the name of charity.[73] The LRB’s actions—particularly its unauthorized attempts to associate itself publicly with the RSF—threatened to undermine the Foundation’s most valuable asset: its claim to disinterested expertise. This threat continued until Hodson died in 1928, whereupon the LRB was dissolved and the Beneficial Industrial Loan Corp. was taken over by C.H. Watts, former chairman of the AAPFC.[74]

The Credit Union Extension Bureau

The Credit Union Extension Bureau (CUNEB) was founded in July 1921, when department store magnate and philanthropist Edward Filene hired Roy Bergengren of the

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[71] Letter from John Glenn to L.C. Harbison. February 28, 1927. Rockefeller Archive Center Russell Sage Foundation Collection, Box 24 Folder 187.
[72] Letter from John Glenn to L.C. Harbison. February 23, 1927. Rockefeller Archive Center Russell Sage Foundation Collection, Box 26 Folder 200.
[73] “The Menace of the 42 Per Cent Loan Sharks.” *The Dallas Craftsman.* January 31, 1930. Library of Congress Russell Sage Foundation Archive, Box 48.
[74] Telegram from Leon Henderson to Glidden. March 7, 1931. Library of Congress Russell Sage Foundation Archive, Box 80, Folder 3.

Massachusetts Credit Union Association to head up an organization that would promote the development of credit unions and credit union enabling legislation nationwide. Whereas the RSF was able to capitalize on its reputation to subordinate the AAPFC, CUNEB's own considerable resources, symbolic capital and rival expertise eventually forced the Foundation to cede control over credit union policy to this rival organization.

Credit unions were the chief alternative "solution" to the problem of credit for lower-income people. The RSF had always supported the development of credit unions, though it largely restricted its credit union work to New York state. In 1918 Arthur Ham helped found the New York Credit Union League, which received financial backing from the RSF until 1929. After this initial investment of resources into credit union development, however, RSF staff soon came to believe that because credit unions were typically organized around large workplaces or among workers in a particular sector, they failed to meet the needs of poorer borrowers, those who were unemployed, marginally employed, or who otherwise lacked access to credit unions. By the time of CUNEB's founding, therefore, RSF staff had shifted their focus primarily to promoting the USLL, which they thought a better solution because it regulated lenders who served the nation's lower-income borrowers.

Roy Bergengren quickly proved himself to be an unreliable ally and a skeptic with regard to the efficacy and morality of the USLL. Starting in 1922, Bergengren began making public his misgivings about the USLL and the lenders licensed under it.[75] His actions rankled not only the Foundation, but also the leadership of the AAPFC. For example, in a pamphlet he published that summer on "The Credit Union," he implied that the 42 percent yearly interest rate allowed by the law was usurious, and contended that the credit union was the only real solution to the small loan

[75] Letter from Arthur Ham to Roy Bergengren. March 3, 1922. Library of Congress Russell Sage Foundation Archive, Box 23.

problem in the U.S.[76] Also in 1923, much to the AAPFC's dismay, pro-credit union propaganda condemning the "42 percent loan sharks" began surfacing in various publications.[77] It seemed to the lenders that Bergengren was the likely author of this damaging material.

The for-profit lenders soon got their revenge. Later in 1923, a credit union bill was defeated in Illinois, apparently in part because Illinois small loan lenders opposed it. Bergengren was furious, and threatened to "take the offensive and go after the Illinois small loan law with plenty ammunition and local support."[78] The RSF responded to the controversy by expressing its strong disapproval of any effort to thwart credit union legislation and by exhorting the AAPFC "to see that opposition to the credit union bill is withdrawn."[79] The RSF then hosted a meeting between Bergengren and AAPFC representatives in its offices, where it was agreed that the RSF would help CUNEB hammer out a model credit union bill that would not be opposed by the

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[76] Bergengren, Roy F. Excerpt from *The Credit Union.* July 20, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from Walter Hilborn to John Glenn. July 21, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from Arthur Ham to John Glenn. July 23, 1923. Library of Congress Russell Sage Foundation Archive, Box 139.

[77] These included publications put out by the Babson Institute. See:
Letter from Reginald H. Smith to G.W. Kehr. August 6, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from John Glenn to Roger W. Babson. August 31, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Babson Institute. "The Loan Shark." September 4, 1923. Library of Congress Russell Sage Foundation Archive, Box 139.

[78] Letter from Roy Bergengren to Caro Coombs. April 16, 1923. Rockefeller Archive Center Russell Sage Foundation Collection, Box 26 Folder 20; see also
Letter from Charles Napier to Harvey T. Hill. May 4, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from Harvey T. Hill to Charles Napier. May 16, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from W.F. Dodd to Harvey T. Hill. June 4, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from Harvey T. Hill to Charles Napier. June 4, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from L.C. Harbison to Arthur Ham. June 12, 1923. Library of Congress Russell Sage Foundation Archive, Box 139.

[79] Letter from John Glenn to L.C, Harbison. April 20, 1923. Rockefeller Archive Center Russell Sage Foundation Collection, Box 26 Folder 200.

lenders operating under the USLL.[80] In other words, the RSF tried to create for CUNEB what it already possessed: cooperation with the for-profit lenders. In a letter to RSF director John Glenn following the meeting, Bergengren outlined the agreement reached at the meeting as he understood it: “The procedure thereafter will be that, when it is intended to offer credit union legislation in a given state, *we will forward to you the draft we intend to offer* which will be by you submitted to someone representing the lenders in that state; if the lenders… do not agree on the final form… the matters of difference will be submitted to Mr. Ham and his decision will be final and the draft as then submitted (with Mr. Ham’s approval) will not be opposed by the lenders.”[81] With this agreement, the RSF tried to establish itself as an authoritative mediator between CUNEB and the AAPFC.

Bergengren broke the agreement with the RSF and the AAPFC soon thereafter. In January 1924, he introduced credit union bills in Mississippi and New Jersey without directly notifying the AAPFC and without submitting drafts of the bills to the RSF or the AAPFC for review.[82] Around the same time, an article appeared in *Collier’s Weekly* which the AAPFC and the RSF found objectionable, and which Watts (of the AAPFC) thought might have been written with Bergengren’s input. The editorials contained, in Watts’ words, a “condemnation of the

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[80] Letter from C.H. Watts to Caro Coombe. May 11, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from C.H. Watts to John Glenn. June 4, 1923. Library of Congress Russell Sage Foundation Archive, Box 139;
Letter from Roy Bergengren to Edward Filene. June 22, 1923. Credit Union National Association Archive, Edward A. Filene Papers;
Letter from Roy Bergengren to John Glenn. July 25, 1923. Library of Congress Russell Sage Foundation Archive, Box 4.

[81] Letter from Roy Bergengren to John Glenn. July 25, 1923. Library of Congress Russell Sage Foundation Archive, Box 4.

[82] Letter from C.H. Watts to Walter Hilborn. February 14, 1924. Library of Congress Russell Sage Foundation Archive, Box 4;
Letter from John Glenn to Arthur Ham. February 16, 1924. Library of Congress Russell Sage Foundation Archive, Box 4.

socalled [sic] high rate lender," namely the 42 percent lender, and exuberant praise for credit unions.[83]

After a flurry of correspondence between Glenn, Ham, and Watts, Ham wrote Bergengren a letter in which he politely ("with all friendliness and with a desire to cooperate") chastised him for violating the agreement and encouraged him to "avoid much trouble and work and possible unpleasantness" by submitting draft bills to the RSF for review. He also suggested that Bergengren ask the editor of Collier's to avoid anti-USLL rhetoric in the future.[84] Bergengren wrote back about a month later with a rebuttal. In his letter he reframed his understanding of the agreement, stating "the real essence of our agreement, it seems to me—the most important part of it—is contained in a mutual willingness to let each other's legislative programs alone." He claimed that he had been asked several times to comment on the USLL and had refrained from saying anything negative about it, and that he had removed criticism of the USLL from CUNEB publicity materials.[85] In his view, he was honoring his end of the non-intervention deal, and it was time for the RSF to honor theirs.

In the spring of 1924 another anti-USLL article appeared in the *New York American*.[86] AAPFC leaders were livid. While urging AAPFC leaders to avoid an all-out fight with CUNEB—a fight he believed the lenders would lose—John Glenn suggested that he and Ham contact Edward Filene and ask him to rein in Bergengren: "Mr. Filene is a personal friend of mine and will, I am sure, give respectful consideration to anything I have to suggest." Glenn urged caution, however: "A straight out fight between the AAPFC and the credit union

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[83] Letter from C.H. Watts to John Glenn. February 18, 1924. Library of Congress Russell Sage Foundation Archive, Box 4;
[84] Letter from Arthur Ham to Roy Bergengren. March 4, 1924. Library of Congress Russell Sage Foundation Archive, Box 139.
[85] Letter from Roy Bergengren to Arthur Ham. March 22, 1924. Library of Congress Russell Sage Foundation Archive, Box 139.
[86] "The Credit Union." *The New York American.* March 30, 1924. Library of Congress Russell Sage Foundation Archive, Box 139.

association may do the AAPFC untold harm, much more harm than is likely to ensue from the credit union bills that have been proposed in the various legislatures. It must be remembered that it is not easy to get the public to believe that 3 1/2 percent a month is a moderate rate of interest. A credit union, on the other hand, is something that appeals at once to everybody… Another point is that this Foundation has backed credit unions as strongly and heartily as it has backed the uniform bill and the AAPFC… we [therefore] could not take the position that we must support the AAPFC in a fight against the credit union movement."[87]

In 1926, the RSF hired a credit union organizer named Rolf Nugent, who also became secretary of the New York Credit Union League. Nugent set about restructuring the League and by May 1927, he was able to bring membership back up to over 30 credit unions.[88] This slow progress was due in large part to the hostile attitude of the New York Banking Department and its refusal to grant new credit union charters. Believing that he could do a better job than the RSF at overcoming the Banking Department's opposition, Bergengren announced in April 1928 that he was planning to come to New York to do his own credit union organization work.[89] Apparently, Bergengren intended to force the Banking Department to issue more charters to credit union applicants by getting "national figures on his letterhead" to pressure the NY governor, Al Smith, who was running for President.[90] This was a tactic that people at the RSF thought could be potentially disastrous.[91] On May 3rd, Glenn wrote Filene to urge him to prevent Bergengren from coming to New York. He argued, "I think it will be very undesirable from both

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[87] Letter from John Glenn to C.H. Watts. May 7, 1924. Library of Congress Russell Sage Foundation Archive, Box 4.

[88] Report by Sidney Stahl for Roy Bergengren. September 10, 1936. Credit Union National Association Archives, Roy F. Bergengren Papers.

[89] Letter from Roy Bergengren to Leon Henderson. April 12, 1928. Credit Union National Association Archives, Roy F. Bergengren Papers.

[90] Letter from Leon Henderson to Ruth M. Miner. March 22, 1928. Library of Congress Russell Sage Foundation Archive, Box 139.

[91] Memo from Leon Henderson to John Glenn. April 28, 1928. Library of Congress Russell Sage Foundation Archive, Box 139.

the local and national point of view for Mr. Bergengren to undertake to do anything about credit unions in New York State. The situation here is a very delicate one…and can only be handled by someone who is thoroughly familiar with the local situation and who knows personally the actors in the drama… any efforts on [Bergengren's] part to force the hands of the Banking Department will antagonize the officials of that Department and will only delay progress. I am writing you personally because we have all found in the course of our experience with Mr. Bergengren that he will not listen to any requests from us and will not pay any attention to our judgment, but insists on acting entirely on his own initiative without realizing the importance of cooperation."[92] Eventually, Filene seems to have complied with Glenn's request. He asked Bergrengren to stay out of New York for the time being[93] and told Bergengren to "stop any attacks on the Russell Sage Foundation or the Industrial Lenders who work under the forty-two percent law."[94]

In late 1929, an unexpected turn of events brought a sudden end to the longstanding tension between the RSF and CUNEB. The director of Filene's foundation, the Twentieth Century Fund, proposed that CUNEB simply take over the credit union extension work being conducted by the RSF's Department of Remedial Loans through the New York Credit Union League. Surprisingly, given its prior resistance to Bergengren's intervention in New York, the RSF offered to consider such a transfer if CUNEB agreed to spend at least as much as the Foundation was currently spending on extension work, and if the New York Credit Union League agreed to the transfer.[95] These conditions were accepted by CUNEB;[96] soon thereafter,

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[92] Letter from John Glenn to Edward Filene. May 3, 1928. Credit Union National Association Archives, Roy F. Bergengren Papers.
[93] Letter from Evans Clark to Leon Henderson. December 20, 1930. Library of Congress Russell Sage Foundation Archive, Box 139.
[94] Letter from Evans Clark to Roy Bergengren. December 2, 1929. Library of Congress Russell Sage Foundation Archive, Box 139.
[95] "Agreement in re. Transfer of the New York Credit Union League with the Credit Union National Extention Bureau and Present Status of the Transfer." May 9, 1930. Library of Congress Russell Sage Foundation Archive, Box 139.

the League endorsed the move,[97] and CUNEB replaced the RSF as the New York Credit Union League's primary financial backer.[98] Jurisdiction was formally transferred from the RSF to CUNEB, and the League's offices were moved from the RSF building to a different site. These developments had the RSF's blessing, primarily because the Foundation wanted Nugent to direct his attention toward other matters (mainly the USLL), and also because its directors believed that it was no longer financially possible to continue supporting the League. Thus, for the next ten years, the small loan policy reform field was effectively divided between the RSF, working on the USLL, and CUNEB, focusing on credit union legislation and development.

The RSF's efforts to control the LRB and CUNEB both failed. Why was the Foundation so successful in its attempts to control the AAPFC but so unsuccessful in its efforts to dominate these two other organizations? In all three cases, the Foundation tried to reign in its rivals by pressuring them to submit to semi-formal agreements which would limit their autonomous political activity. While the AAPFC submitted to these constraints, the LRB and CUNEB found it expedient to violate the agreements and flout the RSF's attempts to establish authority over the small loans field. In the case of the LRB, Hodson obviously thought he could get away with publicly presenting himself as an ally of the RSF without actually securing the Foundation's approval. Like the other lenders, he wanted to benefit from the Foundation's reputation, but unlike them, he did not want to sacrifice his political autonomy or comply with the regulations contained in the USLL. CUNEB, on the other hand, did not need the RSF to pursue its political agenda. Like the RSF, it soon established its own national reputation for expert promotion of the public good. In fact, as John Glenn recognized, CUNEB possessed *more* of this type of symbolic

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96 Ibid.

97 Letter from Rolf Nugent to Roy Bergengren. June 13, 1930. Library of Congress Russell Sage Foundation Archive, Box 139.

98 Letter from Rolf Nugent to Evans Clark. April 29, 1930. Library of Congress Russell Sage Foundation Archive, Box 139.

capital than the RSF, since credit unions charged lower interest rates and did not suffer from the same stigma that often plagued the "42 percent" lenders. In short, neither the LRB nor CUNEB needed or valued the resource the RSF possessed—its reputation for disinterested civic-minded expertise—enough to comply with its demands. This suggests more generally that in their relationship with industry, experts' ability to exercise the upper hand depends upon (1) the degree to which industry lacks public credibility; (2) the extent to which industry needs credibility in order to accomplish its goals; and (3) the degree to which industry perceives cooperation with experts as a necessary and viable way to improve its public credibility.

Conclusion

The foregoing analysis has shown how a group of experts operating outside the system of professions built from the ground up a national reputation for expertise and deployed this reputation as a political power resource. Although Margaret Olivia Sage, Robert de Forest, John Glenn, and members of the Foundation's executive board certainly bestowed upon the Foundation a positive social reputation and valuable social capital, this prestige could not, by itself, enable Division of Remedial Loans directors to convince legislators and the public—particularly beyond the Northeast—that their specific policy recommendations were valid. Nor did expertise in one issue area (e.g., social work) automatically translate into expertise in a different area (e.g., credit markets), although the two could bolster each other. Moreover, mere possession of an advanced degree was not sufficient. In the absence of traditional status markers like state licensure or professional association membership, RSF experts had to work tirelessly to establish and defend their expertise through a process of reputational entrepreneurship. This process included actually studying the small loans issue and publishing research findings, but also making claims to expertise in their communications with lawmakers, the press, and the public. This willingness to engage in a certain degree of posturing allowed RSF experts to portray the 3.5 percent interest rate permitted under the USLL as supported by scientific evidence, when in reality, it was the result of a political compromise with small loan lenders. The claim to knowledge was just as important as knowledge per se when it came to establishing a publicly recognized expert identity and legitimizing policy recommendations.

An established reputation for disinterested expertise gave the RSF's policy ideas political standing that they would otherwise not have had. Lacking other kinds of political resources, the RSF's ideas would have been mere historical detail had their reputational entrepreneurship been unsuccessful. Instead, as we have shown, the RSF was able to deploy its expertise in surprising ways. Besides using it to influence policy and opinion through direct lobbying, testimonies, and editorializing, Ham and his successors were able to turn expertise into a power resource in their negotiations with the small loan industry. The prevailing assumption among scholars who examine the interactions between experts, industry, and policy, is that experts are largely dominated by powerful industrial actors. Our case offers an important countervailing example in which an industry came to depend on experts to legitimate its political and market activities. In particular, the RSF's credible reputation for *disinterested expertise* helped to protect the small loan industry from the accusation that its policy recommendations were motivated by nothing more than self-interest. The upshot of this alliance between expertise and industry was that the USLL was adopted by 34 states in an effort to mitigate an age-old, and yet unresolved, problem: the abuse of small borrowers by unscrupulous and predatory lenders.

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