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FORUM: DEBT

Good Debtor, Good Worker: Wage Garnishment in the Rise of Consumer Credit

Louis Hyman

ILR School, Cornell University, Ithaca, NY, USA

Understanding the history of consumer debt in the twentieth century seems simple enough: market making. Debt has existed as long as civilization, but it was only in the last century that our petty debts became big business, and that was made possible by making markets for consumer debts akin to those of businesses and governments.

In Europe and then the New World, business debt and public debt had both backed and wrecked kingdoms and economies for centuries.[1] Their ascents were the rise of high finance itself. Yet the daily debts—to a grocer, to a neighbor, to a loan shark—remained stunningly disconnected from capitalism's sinews of investment.[2] These debts may have been crucial to the borrowers, and often to the economies as a whole, but they were not marketable. The debt could not be resold and that meant it was limited to whatever the lender, often just a shop-keeper, could come up with. Financiers could back the big debtors of the day, starting with European sovereigns and ending with nearly sovereign corporations, but ordinary people remained cut off. By the end of the nineteenth century, as industrial capitalism roared, the story remained the same. Big money remained invested in factories, not workers' debts.

By the end of the twentieth century, at least in the United States, the opposite was true. The worker, as a site of investment, had outstripped the factory. From a narrow point of view, debt's history could be simply told as the march from individual debts to institutional debts to market debts.[3] The savings-and-loan became a mortgage company became a securitized mortgage. For the first time, consumer credit easily flowed from investors to borrowers. Investors around the world could invest in American consumer debt as easily as buying a corporate stock—and considerably more easily than a loan to a small business.

This financial narrative is as true as it is incomplete because it neglects the way that this financial history always depends on labor history. Too often the histories of work and finance are treated as separate, specialized subfields of history, though less often these days than in the past. To understand the modern history of debt in the United States requires more than the

[1]The literature on the rise of finance and governments during the transition to the modern period is vast, but for some starting points, see Anne L. Murphy, *The Origins of English Financial Markets: Investment and Speculation before the South Sea Bubble* (New York, 2009); Niall Ferguson, *The Ascent of Money* (New York, 2008); Youssef Cassis and Jacqueline Collier, *Capitals of Capital: A History of International Financial Centres, 1780–2005* (Cambridge, UK, 2006); and Larry Neal, "How It All Began: The Monetary and Financial Architecture of Europe during the First Global Capital Markets, 1648–1815," *Financial History Review* 7, no. 2 (2000): 117–40.

[2]For the ubiquity of using money only as an account, that is, as a recording keeping device which was also a debt, see for example Rebecca L. Spang, *Stuff and Money in the Time of the French Revolution* (Cambridge, MA, 2015); Richard Sylla, "Monetary Innovation in America," *Journal of Economic History* 42, no. 1 (1982): 21–30; and Sharon Ann Murphy, *Other People's Money: How Banking Worked in the Early American Republic* (Baltimore, MD, 2017).

[3]This march to the market is the narrative of my first book, which I am complicating. Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton, NJ, 2011).

history of finance; it requires the history of work because consumer lending relies not on a borrower's wealth but on a borrower's income.

Debt's rise, then, is intertwined with the rise of industrial paychecks, for both the hourly and salaried alike. Without the stability of work, consumer credit would have been impossible. Lenders' ability to claw back bad debts through garnishment was crucial for their willingness to lend in an era before credit ratings.

Wage garnishment, or wage attachment, occurred when a debt went unpaid. Retailers and lenders of all sizes relied on garnishment. A retailer would file a legal claim to the borrower's job and then get repaid from their earnings until the debt was satisfied. Even for the larger stores, which should have had the greatest ability to use credit reports to restrict customers' credit, there was often little incentive. The president of a "great store" told a writer in *Collier's* that the store's "credit losses [were] not enough to boast about and [they did] 75 per cent of [their] business on credit." The president remarked that he could "wipe out this business overnight by abolishing the charge system and going on a cash basis."[4] Better to lend too much, and then collect through garnishment later, than to miss a sale.

Business loans, often for considerable sums, relied on solid information about the borrower. When an applicant was unknown to a lender, mercantile credit firms like Dun & Bradstreet could supply detailed descriptions of a businessperson's personal and public affairs.[5] Between knowing the community and knowing the credit bureau, bankers and other firms that extended credit could make good decisions about to whom they should lend. The basis upon which ordinary consumers were judged creditworthy, however, was completely different. For business loans, credit risk was mitigated by information ahead of the loan. Defaulting on the loan would probably only happen if the businessperson went bankrupt and other creditors scrambled to claim the value of the collateral. For consumer loans, in contrast, credit risk was mitigated by debt enforcement afterwards. The future job, not the borrowers' assets, was the collateral for the loan. In the first decades of the twentieth century, only the most exclusive retailers, with the most expensive goods, could afford the services of the nascent consumer credit rating agencies.

Neighborhood shopkeepers, who could not afford any credit reporting, relied on more informal means of assessing risk. Neighborhood reputation, occupation, stability of address, ethnicity, race, family status, friendliness, and many other factors rational and irrational played into the decision to lend. The more systematically inclined storeowners could turn to instructional texts written by debt collectors to help retailers understand lending. For instance, Bryant Griffin, formerly of Guaranty Banking Corporation, wrote *Installment Sales and Collections* for the educational publisher Prentice-Hall in 1922. From the decision to lend to how to collect, this book guided small-business owners through every step, but the instructions on making the lending decision revealed that even the experts relied on intuition. Gamblers and those with "unsavory reputations" should not be lent to.[6] Nor should easy credit be made available to people who moved a lot or to the young who "manifest spendthrift motives in order to indulge in certain luxuries."[7] But what was clear to any creditor was that a consumer's largest asset was his or her income, and if that was compromised, such aspects of character (or social capital) were largely irrelevant to debt repayment. "Capacity," that is, future wages, were all that really mattered. The lack of reliable measures of consumer creditworthiness in the 1920s was balanced out by the lender's ability to easily seize that largest asset if the borrower stopped paying—wage garnishment.[8]

[4]William Basset, "In Every 100 Men 99 Are Honest," *Collier's*, Nov. 1923, 17–8.

[5]See Rowena Olegario for more on nineteenth-century mercantile credit. Rowena Olegario, *A Culture of Credit: Embedding Trust and Transparency in Business* (Cambridge, MA, 2006).

[6]Bryan Griffith, *Installment Sales and Collections* (New York, 1922), 20–1.

[7]Ibid.

[8]This essay largely concerns urban workers who participated in a market economy. For workers in situations where retail was a monopolistic lender, like sharecroppers or those who lived in a company town, garnishment was even more direct.

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Legalized at the turn of the century before the widespread adoption of small loan lending, garnishment required employers to pay workers' creditors before they received their pay.[9] In the absence of good information beforehand about whether a potential borrower would repay a debt, garnishment provided an avenue to force repayment by directly taking money from a worker's wage. This reduction in lending risk helped expand the possible pool of borrowers and made it possible for many working-class people to borrow, if not for cash then at least for groceries. Intended to be used infrequently, with the proliferation of legal lending after World War I, garnishment assumed a centrality not only to working-class consumer life but also to law enforcement. City marshals in New York, sheriff deputies in California, and every other state variation on low-level police began to enforce collection as legal lending spread. Since there were no legal restrictions on the amount of garnishment, entire paychecks could be taken up in overdue installment payments.[10]

Consider the case of New York deck hand John S., who came to the New York Legal Aid Society for help in 1928. With a small savings, he had bought a house in 1927.[11] He outfitted the house through the installment plan with furniture and a radio. Furniture stores, like most installment sellers, relied on very scant information about borrowers, relying, in the absence of reliable risk information, on high rates of interest and harsh steps to guarantee repayment—repossession and garnishment. Since nearly all durable goods were expensive and could be resold (unlike IKEA furniture today), repossession was a viable option for securing furniture loans.[12] Yet garnishment was just as easy to arrange as repossession. For stores that cared more about getting paid than reselling repossessed goods, it was the preferred option.

For five months everything went well until John fell on an "icy sidewalk" and severely sprained his wrist. Out of work for two months, his family quickly went through their savings. Finally getting back to work, two weeks went by, and he went to get his paycheck, which he found, to his surprise, had been totally garnished by the furniture store. He owed $240 and every paycheck for the next six weeks would go, in total, to pay his debt. But John did not just owe money to the furniture store. He owed money on his mortgage. He owed money to other stores that had extended him installment credit. He owed the corner grocery. And, on top of that, he still needed money to live. Because of the garnishment, he would lose his house and be unable to buy food. Appealing to the Legal Aid Society for mediation, the pro bono lawyers there were able to work out a deal between John S. and his creditors, but it was noted as "one of the few cases [the Legal Aid lawyer] was able to adjust in the past year."[13]

Most borrowers in John's situation were pushed instead into a cascading failure of garnished wages that led to repossession and eviction. The carefully budgeted balance of debt and wages fell apart as current wages disappeared, leading to catastrophic outcomes where the monthly bills everything borrowed for—house, car, radio, furniture—went suddenly unpaid. Everything borrowed for would be repossessed. All the payments that had been made were lost. No such thing as equity existed in installment contracts. Even if the wage earner could endure garnishment, the garnishment itself was expensive. Monthly fees per garnishment

[9]There is a paucity of historical literature on garnishment and wage assignment. The only substantive work, to my knowledge, on the origins of garnishment in New York is Michael Easterly, "Your Job Is Your Credit: Creating a Market for Loans to Salaried Employees in New York City, 1885–1920" (PhD diss., UCLA, 2008). More marginal discussions of wage assignment exist in some of the literature on loan sharking. See Peter Shergold, "The Loan Shark: The Small Loan Business in Early Twentieth-Century Pittsburgh," *Pennsylvania History* 45, no. 3 (July 1978): 195–223; and Mark H. Haller and John V. Alviti, "Loansharking in American Cities: Historical Analysis of a Marginal Enterprise," *The American Journal of Legal History* 21, no. 2 (Apr. 1977): 125–56.

[10]For instance, legal restrictions on the percentage of garnishment in New York would not exist until 1935. Legal Aid Society, *Annual Report*, 1934, 11.

[11]Legal Aid Society, *Annual Report*, 1929, 47.

[12]Hyman, *Debtor Nation*, 33.

[13]Legal Aid Society, *Annual Report*, 1929, 47.

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could be the equivalent of $28 today.[14] On a small income, the fees of the multiple garnishments could quickly eat up a paycheck already barely covering expenses.

Even if garnishment did not directly lead to a financial collapse by eating up all available resources, it could still result in collapse by getting the garnishee fired. Many employers fired workers who were garnished, believing that someone who was irresponsible with their own affairs would be irresponsible with the firm's. At the very least, the debt collectors pestering the company made garnished workers dispensable, and employees were told, according to the *Yale Law Journal*, that "one or two or three 'wage tie-ups' [were] grounds for discharge."[15]

Employees were not fired because they were bad workers, but because they were bad consumers. Once fired, of course, the borrowers could not make their payments, and then repossession took the place of garnishment. The job loss from garnishment was, in many ways, the most frightening consequence of garnishment, and thus was used as a threat by many debt collectors.

The garnishment system hurt working-class consumers particularly hard. Consider the situation at the Chicago meatpacking giant Armour & Company in 1931. Among its office employees, only 8 percent (106) had their wages garnished a year, which was a considerable number but certainly not standard. Among plant employees, however, 70 percent (3,775) had either a wage assignment or garnishment.[16] Seventy-seven percent of these claims were from retailers.[17] With so many garnishments, the company must employ a "high-salaried man" and "two young attorneys" to oversee the payments.[18] Understandably, in 1929, Armour, like many other corporations in the late 1920s, tried to resist paying garnishments, but like the other companies, lost the case and continued to be forced to pay their workers' creditors.

The problem was not the debt itself, but how, for the unfortunate, it multiplied precarity—of work, of health—into tragedy. In 1931, 105,000 New York City residents had their wages garnished, nearly all for installment purchases, which could easily have been seen, especially by middle-class scolds, as unnecessary.[19] In Chicago, the Legal Aid Society claimed 83 percent of their garnishment cases came from installment plan excesses.[20] Yet for every John S. who spilled on the ice, there were many more people who, because of borrowing, could live in a well-furnished house today and not in some distant future. The 105,000 New Yorkers sounds like a lot, until you consider that New York City had roughly 7,000,000 people.[21]

In the crisis of the Great Depression, however, many states legislatures began to reconsider unlimited garnishment and to establish ceilings on how much of a salary could be taken, especially when a family was involved. These politicians began to see the very real cascading family crises, like that of John S., less as a personal failure than a structural problem. States like New York, which restricted garnishments to 10 percent of a paycheck, began to protect a worker's wage from creditors.[22] Even if a parent may have made a bad choice to borrow for a radio,

[14]Simeon Booker, "Trusteeship Saves Money for Victims of Creditors," *Cleveland Call and Post*, Feb. 7, 1948, 1b; calculated via Consumer Price Index inflation calculator: http://www.bls.gov/data/inflation_calculator.htm. On the more recent history of credit fees, see Devin Fergus, *Land of the Fee: Hidden Costs and the Decline of the American Middle Class* (New York, 2018).

[15]A. Fortas, "Wage Assignments in Chicago: *State Street Furniture Co. v Armour & Co.*," *The Yale Law Journal* 42, no. 4 (Feb. 1933): 538.

[16]Calculated from numbers in Fortas, "Wage Assignments in Chicago," 543–44.

[17]Ibid.

[18]Ibid.

[19]Rolf Nugent and Leon Henderson, "Installment Selling and the Consumer: A Brief for Regulation," *Annals of the American Academy of Political and Social Science* 173, no. 1 (May 1934): 95.

[20]Fortas, "Wage Assignments in Chicago," 538.

[21]New York City Planning Department, "Total Population New York City & Boroughs, 1900 to 2010," accessed June 7, 2023, https://www.nyc.gov/assets/planning/download/pdf/data-maps/nyc-population/historical-population/nyc_total_ pop_1900-2010.pdf

[22]"Lawyers Back Bill on Wage Assignment," *New York Times*, Feb. 6, 1933, 2.

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the children still needed to eat. Single people generally did not have the same kind of protections as married people. In Ohio, for instance, creditors could take all wages above $30 a month ($375 in 2023 dollars) for a single earner.[23] The family situation was more complex, but still only completely protected the first $60 of monthly income.[24] These laws were justified as a way to safeguard working-class families from the consequences of over-borrowing and to help restore stability to the economy.

Debt collectors and credit reformers expected the garnishment restriction to reduce lending since without "repossession, attachment, garnishment," and the like, "no credit should be granted."[25] With the restrictions on garnishment in the 1930s came a surging demand for credit reports on consumers akin to those available through mercantile credit bureaus. The expansion of credit reporting in the 1930s allowed for lenders to be more careful in their lending in some ways, but of course led to other consequences in how the data were collected, categorized, and used.[26] Credit reports came to be used not only for lending but for hiring decisions as well, which compounded the challenges of repayment for debtors. Broad swaths of the population who worked were systematically denied credit access, like married women, poor people, racial minorities, and the young. Without a credit report, finding work, especially good work, became doubly difficult.[27] Lending discrimination could reinforce workplace discrimination. Information not readily available on a resume, like sexuality or race, could easily be found out.[28] Bad consumers, defined through a very particular cultural framework, were now visible in the credit reports, and became seen as bad workers.

This story of industrial work and borrowed wages would echo through the rest of the century as borrowing began to overtake more of that paycheck. The expansion of industrial unions and labor laws reduced precarity and, in turn, made it safer to both lend and to borrow.

[23]Booker, "Trusteeship Saves Money for Victims of Creditors," 1b; calculated via CPI inflation calculator http://www.bls.gov/data/inflation_calculator.htm.

[24]The first $60 could not be garnished. Up to 20 percent of the first $200 could be garnished (up to $40) and then above $200, 40 percent could be garnished. Booker, "Trusteeship Saves Money for Victims of Creditors," 1b.

[25]Fortas, "Wage Assignments in Chicago," 551.

[26]Josh Lauer, *Creditworthy: A History of Consumer Surveillance and Financial Identity in America* (New York, 2017).

[27]Space constraints do not allow for a broader examination of the ways in which garnishment persisted among the urban poor, especially in Black communities. The garnishment and repossession systems were a key part of the urban unrest in the 1960s. For middle-class whites, an entirely different credit system, based on credit reporting, had eclipsed these older models. Since denials preceded loans, the social ramifications were lessened. You did not lose your job due to garnishments. As in other aspects of the post–New Deal credit system, new rules were created for white Americans that were more flexible and less punitive than persisted for Black Americans. See Louis Hyman, *Borrow: The American Way of Debt* (New York, 2012), 31; and Hyman, *Debtor Nation*, 177.

[28]Guidelines for credit inspectors like the Retail Credit Company's *Inspector's Handy Guide*, written in 1962, encouraged inspectors to answer: "Is the applicant pure Caucasian or a mixture? Describe the individual if a mixture of races to show whether predominantly Caucasian or Negro. It is not practicable to attempt to estimate percentages." Questions about Chicanos focused on whether they were "a permanent resident or the floater type," which would be a reasonable question to ask about anyone applying for credit, but applied only to Chicanos. Yet, the specific questions about Chicanos, such as "Does he occupy a hovel … does applicant associate with Mexicans or with Anglo-Saxons," betray the assumptions about "Mexicans" rather than "Anglo-Saxons." Frederick King, the head of a comparable investigation-oriented company—Hooper-Holmes Bureau—remarked that some information, which they considered important, required extra effort to unearth. "Homosexuality," for instance," is of the most difficult things to determine," he lamented to *The New Republic*. The trick, King said, was to "dig" and get at the "mode of living, their circle of friends and the organizations they belong to." The Cold War security concerns over homosexuality spilled over uncritically into ordinary jobs and ordinary homophobia. Very easily, then, it can be seen, how information gathered for non-employment purposes but included in any employment report could lead to discrimination. Indeed, the purpose of gathering such information, according to *The New Republic*, was to enable prospective employers, insurers, and lenders to discriminate against hiring "Mexicans," "homosexuals," or "Negroes." Quoted in Stanford Sesser, "Big Brother Keeps Tabs on Insurance Buyers," *The New Republic*, Apr. 27, 1968, 11–2.

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The postwar economy of consumer credit, in turn, rested on these jobs. Houses, cars, appliances, furniture, clothes—everything came through credit. Americans borrowed from the future, believing—correctly—that their real incomes would continue to rise. To the degree that workers and their families were part of this postwar stability, they enjoyed the benefits of wages and credit. That access, as is well-known, was deeply circumscribed by race, gender, marital status, and citizenship.

Foregrounding the relationship of work to debt helps us better understand the world after the postwar order collapsed. Even as women and African Americans gained legal redress for credit and workplace discrimination, that stable industrial economy that had underpinned the white American experience for a half century was itself eroding. The economic shocks of the 1970s were not aberrations but a new normal, what the chairman of the Federal Reserve Alan Greenspan would later famously call the "Age of Turbulence."[29] Real incomes would stagnate for decades. Job security would collapse. Credit, once a reasonable way to build a prosperous future, became a way to live through a brutal present. The leverage of borrowing for houses in an appreciating market became one of the few ways that ordinary Americans could get ahead, and when those housing markets collapsed in 2008, the reality of stagnation became clear.

The link here, as always, is the changing relationship between labor and capital. Sometime in this post-postwar moment, the investments that had sustained a rising prosperity in the first three-quarters of the twentieth century failed. Economists and historians continue to argue about its causes, but what is clear is that consumer debt became relatively a better investment than business debt.[30] The billions and then trillions invested in consumer debt were billions and then trillions not invested in business debt. Business debt can create real long-term value; consumer debt cannot. Some consumer debt helps make life better, but only if real incomes rise in the long-run, and if we do not lose our jobs in the meantime. Eventually all debts must be paid. If capitalism's promise is that capital can be invested to ultimately better standards of living, then since 1970 capitalism in the United States has broken its promise.

The securitization of consumer debt could, in this narrative, be seen as both a cause and a consequence. As a *cause*, securitization made it much easier to invest in small consumer debts as opposed to small business debts. For instance, large corporations could sell bonds, but the local, growing plumbing supply business could not. As it became easier for commercial banks to lend to consumers, they advanced less money to plumbing supply businesses. Those consumer debts could be easily resold, while business debts could not. Small and medium businesses have been choked for capital for decades and seen their percentage of economic activity slide.[31] The other view would be that the rise of consumer debt securitization has only been a *consequence* of a dearth of investment opportunities, the explanations of which are legion. Whether this failure comes from scientific stagnation, invariant laws of the falling rate of profit, or just globalization matters little since the consequences are the same: financial speculation, not real investment.

As we continue to write the history of debt, we must embed the history of work. Writing such braided histories will allow us to better understand the relationships between finances and economies, between owners and workers, between lenders and borrowers. The debt relation is a carnival mirror to the labor relation, but that misshaped reflection is never quite stable. Only by understanding its history can we better understand its distortions today.

[29] Alan Greenspan, *The Age of Turbulence: Adventures in a New World* (New York, 2008).

[30] The best starting point for these debates is Robert Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War* (Princeton, NJ, 2016).

[31] Kathryn Kobe and Richard Schwinn, "Small Business GDP 1998–2014," accessed June 7, 2023, https://advocacy.sba.gov/wp-content/uploads/2018/12/Small-Business-GDP-1998-2014.pdf

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