In 1967 the President’s Commission on Law Enforcement and Administration of Justice reported that ‘loan sharking’, the lending of money at rates higher than the legally prescribed limit or socially-accepted norm, was the most important source of revenue, other than gambling, for organized crime. Hearings before a House of Representatives’ investigation in the previous year had already established the loan sharks’ success in infiltrating legitimate banks and businesses. New York State’s Commission of Investigation, horrified by the role and influence of such lenders, sought methods by which to improve and strengthen existing state usury laws. Tales of borrower intimidation and exploitative violence proliferated. The loan shark had become a major public enemy.¹

Yet he was not a new phenomenon in American society. In the early twentieth-century the Russell Sage Foundation had led a vigorous campaign against sharks who, it was alleged, lent money at exorbitant rates on the strength of a wage assignment, or on the security of a chattel mortgage upon household possessions.² Loan sharks, “the scourge of the deep waters of city life,” were personified as a “class of Shylocks that (infested) every walk” of existence and were typified


2. However it should be noted that although early twentieth-century loan sharks were criticized for employing illegal and/or immoral business practices, they were not generally alleged to be operated by organized crime. I have discovered no contemporary claims that loan sharks were part of a crime pattern involving gambling, prostitution or extortion.
as "ruthless exploiters." Opposition to their activities became a central tenet of urban Progressives; was propounded in political arena, pulpit, and the press; and was responsible for the growth of organizations whose specific task was to combat their "predal prosperity." Loan sharks, agreed reformers, were an evil to be eradicated.

Their activities were certainly pervasive. Contemporary criticisms leave no doubt that the agencies, corporate and individual, which provided high-interest, short-term borrowing facilities, represented a form of business enterprise with which most urban workers would have been intimately acquainted and which directly affected many of their lives.

Yet the role of money-lenders has been virtually ignored by historians of business and of labor. This apparent lack of interest probably reflects the difficulty of securing reliable documentation. The archives of the small loan companies are no longer extant (and, for obvious reasons, were always kept well hidden from investigative eyes); and few workers recorded their involvement with such loaners. But lack of empirical evidence should not prohibit historical analysis. It is hoped that this study, largely based on activities in the city of Pittsburgh, and derived from material that is—of necessity—fragmentary and circumstantial, may at least indicate the scale of lending operations, the means by which business was conducted, and the validity of contemporary criticisms.

Statistical evidence reveals conclusively that many urban workers required short-term borrowing facilities to tide them over periods of financial exigency. A study carried out by the Conference of Charities and Correction in New York City in 1906–07 revealed that 30.3 percent of families earning less than $700 annually were forced to borrow. A more comprehensive survey of the same city indicated that 23.6 percent of families required small-loan facilities in 1907. For families receiving a yearly income of less than $700 the figure was 48.5 percent.


The situation in Pittsburgh was probably similar. An investigation of 3,702 Pennsylvania families revealed that 16 percent had expenditures greater than income in 1901. The situation was worse for immigrants: 18.7 percent of foreign-born were in debt, including 21.8 percent of Austro-Hungarians, and 50 percent of Russians, compared to 14.8 percent of native Americans. In the steel town of Homestead, just outside Pittsburgh, a 1907-08 investigation discovered that 15.7 percent of expenditure was financed either by bank withdrawals (6.4 percent) or by arranging credit extensions (9.3 percent).

Some observers attributed dependence upon borrowing to drinking, shiftlessness, or foolhardy extravagance born of increased advertising. "I hope the 'sharks' get their medicine", wrote a correspondent to the New York Times, "but there will, unfortunately, always be gudgeons as well as sharks." The scale of money-lending activity was, suggested another observer, "an appalling example of prevalent American unthrift." However most Pittsburgh investigators were convinced that temporary dependence upon loans was, in the main, attributable to loss of income caused by sickness or unemployment, or to a sudden increase in expenditure due to unexpected medical or funeral costs.

Unemployment was severe. In a normal year, 1900, 23.3 percent of the Pittsburgh male work-force faced at least one month's unemployment, and 11.1 percent were laid off for more than three months. In the depressed economic climate which followed the financial panic of 1907 conditions were much worse. For a full year Pittsburgh workers found themselves "only half, or three-fourths or even one-third of the time employed." It is therefore no surprise

7. U.S.A., Commissioner of Labor, Eighteenth Annual Report (1903), Part 1, 336-337, table III-C.
11. U.S.A., Bureau of the Census, Occupations at the Twelfth Census (1900), table 43. Unless otherwise stated all data include the city of Allegheny which was incorporated as Pittsburgh's north side in 1906.
to find that by late 1907, 51.1 percent of Homestead families were forced to seek credit.  

Industrial death and injury was also an inevitable accompaniment to working life. In a twelve month period, 1906–07, 526 fatalities occurred in the workplaces of Allegheny County, 57.5 per cent amongst immigrants, 52 percent amongst unskilled laborers. In 63 per cent of cases “death by industrial accident meant the sudden cutting off of the sole or chief support of the family.” In the same period there were almost 1,200 work-place injuries, more than half of them permanent. Only in rare instances was adequate financial compensation paid.  

The conditions of home life also meant that families had to remain prepared for sudden death, with all its attendant unhappiness and financial hardship. Diarrhoeal diseases took a heavy toll of Pittsburgh’s infants. Between 1908 and 1912, for instance, 13.1 per cent of babies died before reaching one year. Amongst adults typhoid fever cut many lives unexpectedly short. In the five years prior to the introduction of a city filtration plant in 1908 typhoid deaths averaged 12.6 per 10,000 population. Overall there were 1.90 percent deaths in 1900; 1.79 percent in 1910.  

Under such circumstances, in which death and disease were constant neighbors, and in which the prospect of injury and unemployment clouded the future, workers might have been expected to save a share of full-time earnings. Unfortunately many wage rates were insufficient to allow such foresight. Contemporary surveys bear convincing testimony to the fact that many of Pittsburgh’s low-income earners were unable to sacrifice present demand, and retain a portion of income, in order to make provision against future financial crises.

14. Crystal Eastman, Work-Accidents and the Law (New York, 1910). The figure of 1,200 injuries is based upon extrapolation. There were 294 accidents between April and June 1907.  
In an environment in which anticipatory thrift was not always feasible, many workers were forced to draw upon future resources to provide for present necessities.

This was accomplished to a large extent through the credit facilities extended by retailers. Pittsburgh’s neighborhood groceries were willing to trade ‘on tic’ although prices, in consequence, were approximately 10 percent dearer than in the chain and department stores which sold on a strictly cash basis. In addition, the city’s furniture and clothing stores offered installment purchase plans. A small deposit was paid, the customer received his goods, and regular repayments were established extending over six to twelve months. Murphy Bros., for example, offered “Furniture on Credit.” Spear’s sold furniture upon a “Dignified Credit Plan” which demanded a more substantial deposit but lower installments. In theory both stores offered ‘clean credit’ involving no extra charges, a claim which suggests that loan costs were absorbed and passed on to all consumers in the form of higher prices.

Retailers were not always able to extend customers the credit they required. Indeed the extension of installment plans from the 1880s increased the pressure for personal loan finance. Stores engaged in installment selling retained the power to repossess goods for which payment had not been completed. If the consumer’s continuous flow of income was unexpectedly halted or reduced a loan was required if he was not to lose substantial equity through defaulting in his agreed payments.

Commercial banks showed little interest in extending personal loans to low-income, high-risk working-class borrowers, and “in most urban communities . . . failed to supply the demand for consumer loans.” Only the uncontrolled immigrant ‘banks’ proved willing to loan small amounts for short periods on little security, and then only “to laborers and homebuilders who [were] personal friends of

18. Pittsburgh Post (27 and 30 December 1900), advertisements.
the proprietor . . . from the proprietor's own funds or outright from the bank deposits.\textsuperscript{20}

In rare instances private philanthropic organizations entered the field of personal finance. Pittsburgh's Kingsley House settlement hoped to establish a loan office, but found its budget insufficient to support such a project. Others were slightly more successful. The Pittsburgh Association for the Improvement of the Poor extended substantial aid to the city's needy, and—far more hesitantly—loans. In 1909, for instance, $137 was loaned, and in 1910, $50. The Woods Run Settlement also sought to help but again the scale was pathetically small. Surviving reports indicate loans of $11.25 in May, 1906; $6 in June; and none in July or September.\textsuperscript{21} At the public level, Pittsburgh's Department of Charities distributed small cash sums ($200 in 1909, $162 in 1910) but extended no loans.\textsuperscript{22} Given the unwillingness of banks to loan to workers, and the inability of philanthropic enterprise to meet the need, Pittsburghers had to look elsewhere for financial aid. There existed two alternatives: the pawnbroker or the small loan agency.

The pawnbroker lent money upon the pledge of personal property which, until repayment was complete, was deposited with him. Such institutions were well established in Pittsburgh. The De Roy concerns had operated in the city since the 1850s, and N. Gallinger since 1884. By 1897 there were eleven licensed pawnbrokers in Pittsburgh; by 1912 the number had grown to twenty-seven.\textsuperscript{23} Business was brisk. In 1898 pawnbrokers were extending almost 39,000 loans a year, or one for every 11.6 city dwellers. An estimated $200,000 was loaned.\textsuperscript{24}

Yet the capital resources of pawnbrokers were insufficient to meet the demands made by Pittsburgh's workers. Table 1 suggests the

\textsuperscript{20} U.S.A., Immigration Commission, \textit{Reports} (61 Congress, 2 session, 1911), 37 "Immigrant Banks": 245.

\textsuperscript{21} Kingsley Association, \textit{Nineteenth Annual Report} (1913), p. 18; Pittsburgh Association for the Improvement of the Poor, \textit{Thirty-Fifth Annual Report} (1910), p. 18; Woods Run Industrial House, Minute Book (1901-08), mss, all of which are deposited in the Archives of Industrial Society, Pittsburgh.

\textsuperscript{22} Pittsburgh, Department of Charities, \textit{Annual Report} (1909); and Executive Department, \textit{Annual Report} (1912).


\textsuperscript{24} Patterson, "Pawnbroking," p. 273, gives data for May 1898. In order to provide an annual estimate the monthly statistics were multiplied by twelve, and related to the population of Pittsburgh and Allegheny in 1900.
TABLE 1
THE PITTSBURGH PAWN BROKING TRADE:
MAY 1898

<table>
<thead>
<tr>
<th>ITEM PAWNED</th>
<th>NO.</th>
<th>AMOUNT LOANED ($)</th>
<th>AVERAGE LOAN ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Watches</td>
<td>1193</td>
<td>6986.60</td>
<td>5.86</td>
</tr>
<tr>
<td>Silver Watches</td>
<td>641</td>
<td>1238.55</td>
<td>1.93</td>
</tr>
<tr>
<td>Rings</td>
<td>688</td>
<td>3952.75</td>
<td>5.75</td>
</tr>
<tr>
<td>Jewelry</td>
<td>399</td>
<td>4157.85</td>
<td>10.42</td>
</tr>
<tr>
<td>Clothing</td>
<td>273</td>
<td>384.85</td>
<td>1.41</td>
</tr>
<tr>
<td>Musical Instruments</td>
<td>49</td>
<td>156.55</td>
<td>3.19</td>
</tr>
<tr>
<td>Firearms</td>
<td>43</td>
<td>114.70</td>
<td>2.67</td>
</tr>
<tr>
<td>Miscellaneous†</td>
<td>42</td>
<td>121.50</td>
<td>2.89</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3238</strong></td>
<td><strong>17113.35</strong></td>
<td><strong>5.14</strong></td>
</tr>
</tbody>
</table>

† largely tools
SOURCE: Patterson, “Pawnbroking in Europe and the United States.”

reasons. Loans were generally extended on items which possessed a high value relative to their size, particularly jewelry and watches. In consequence pawnbrokers primarily catered to the more affluent borrower. Of those New York City families earning less than $800 in 1908, only 35 percent relied upon pawnbrokers, whilst 65 percent borrowed from small loan businesses. In contrast, of families earning $800 or more, 47.6 percent of borrowers were able to turn to pawnbrokers, and only 52.4 per cent were forced to visit loan sharks.

Furthermore, the average loan extended by the Pittsburgh pawnbroker was only $5.14, equivalent to just over 34 hours work for an unskilled steel worker or engineering laborer. And the average for clothing, the item which most workers were able to deposit, was only $1.41. Those workers who primarily benefitted were a class of ‘repeaters’ who pawned low-value goods each Monday and redeemed them on receipt of the week’s paycheck each Saturday.

Workers who required a more substantial, long-term loan, or who did not possess acceptable valuables, patronized the loan shark, the

much-criticized individual who extended borrowing facilities to workers unable to gain sufficient credit elsewhere. One group lent money upon the security of a chattel mortgage covering the borrower's furniture and/or household effects. These possessions, collateral on the loan, remained with the borrower unless he defaulted. A second group proffered loans which were secured only by an assignment of the borrower's wage or salary. Some small loan businesses specialized in either chattel mortgages or wage assignments. In other instances the loan company handled both types of contract. Very occasionally loan agencies also undertook pawnbroking.

* * *

The number of money-lending agencies, the extent of their activity, and their importance within the urban community, is difficult to ascertain. Functioning in an openly hostile business environment, portrayed by the press as "morally detestable," "public enemies" and "ravenous creatures," and operating on the edge of legality, moneylenders hid their activity behind a shroud of secrecy and purposeful confusion. Yet, however imprecise the extant data, one fact is indisputable—small loans were big business.

City directories provide a statistical guide to the activity of small loan agencies in Pittsburgh, although their value as historical records must be viewed with extreme caution. Listing of establishments was erratic. Moreover the distinction between pawnbrokers and moneylenders was inconsistent, and the two categories were not always treated as mutually exclusive. In some instances double-counting of lenders reflected the fact that enterprises functioned in both capacities. Thus the De Roys operated five pawnshops in the city by the early twentieth century, and from one of these branches operated a separate institution, the De Roys Loan Co. More often, the placement of moneylenders in the pawnbroking section, and vice versa, was merely idiosyncratic. Double-counting also occurred in instances where lenders advertized their services in both an individual and in a corporate capacity. Thus in 1913 W. M. Schiller listed himself as an individual money-lender, and as the Fidelity Loan Co. of which he was an owner and/or manager. Similarly Benjamin Wolk and M. P. Finkelstein were noted separately from their respective agencies, the Fort Pitt Loan Co. and the Collateral Loan Co. 28

28. All these terms are taken from a single editorial in the New York Times (10 June 1911), p. 12. Loan sharks, it was concluded, were "deserving of all the execration they [had] received."

# TABLE 2
**PAWBROKERS AND MONEYLENDERS IN PITTSBURGH: 1900-1913**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PAWBROKERS</th>
<th>MONEYLENDERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>4</td>
<td>24</td>
<td>28</td>
</tr>
<tr>
<td>1901</td>
<td>11</td>
<td>25</td>
<td>36</td>
</tr>
<tr>
<td>1902</td>
<td>12</td>
<td>29</td>
<td>41</td>
</tr>
<tr>
<td>1903</td>
<td>12</td>
<td>30</td>
<td>42</td>
</tr>
<tr>
<td>1904</td>
<td>13</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>1905</td>
<td>10</td>
<td>39</td>
<td>49</td>
</tr>
<tr>
<td>1906</td>
<td>7</td>
<td>43</td>
<td>50</td>
</tr>
<tr>
<td>1907</td>
<td>8</td>
<td>37</td>
<td>45</td>
</tr>
<tr>
<td>1908</td>
<td>13 [18]</td>
<td>39</td>
<td>52 [57]</td>
</tr>
<tr>
<td>1909</td>
<td>13 [20]</td>
<td>47</td>
<td>60 [67]</td>
</tr>
<tr>
<td>1910</td>
<td>10 [24]</td>
<td>37</td>
<td>47 [61]</td>
</tr>
<tr>
<td>1911</td>
<td>14 [26]</td>
<td>32</td>
<td>46 [58]</td>
</tr>
<tr>
<td>1912</td>
<td>11 [27]</td>
<td>43</td>
<td>54 [70]</td>
</tr>
<tr>
<td>1913</td>
<td>4</td>
<td>53</td>
<td>57</td>
</tr>
</tbody>
</table>

*Source: Pittsburgh and Allegheny Directories. Data in brackets from Pittsburgh, Bureau of Police, Annual Reports.*

A far more significant defect of the directories was that they undercounted money-lenders. Many enterprises were never listed. Table 2, which presents the available statistical evidence on moneylending in Pittsburgh, reveals that the number of pawnbroking licenses issued by the city's Bureau of Police[^30] was consistently greater than the number of establishments listed in directories. The quantitative data on agencies or individuals who lent upon the security of furnishings or upon wage assignments is probably less reliable. Often the only historical evidence of their existence survives in tempting—but anonymous—newspaper advertisements. Typical was the following:[^31]

> I HAVE $75,000 that I desire to loan out in sums of from $10 to $500 on household goods, pianos, etc., at a smaller rate of interest than you can get from any money-lending concern. Write P.O. Box 1647, Pittsburgh, Pa., and I will call and talk the matter over with you.

[^30]: Pittsburgh, Department of Public Safety, Bureau of Police, *Annual Reports.*

[^31]: The advertisements cited in the text of this article are selected from those which appeared regularly in the columns of the *Pittsburgh Dispatch.*
Other money-lenders relied upon the discreet distribution of circulars, the services of soliciting agents paid upon a commission basis, or simply word-of-mouth reputation to advertise their services, and to establish a network of potential borrowers.\textsuperscript{32} Such 'vestpocket' lenders, to whom money-lending was often but one outlet for a diverse range of neocriminal entrepreneurial talents, played an important role in supplying Pittsburghers with short-term borrowing facilities. Their significance is difficult to gauge. But there can be little doubt that the saloon-keeper or barber who offered help to his clients in times of financial exigency was frequently acting not on his own behalf, but as an intermediary between lender and borrower.\textsuperscript{33}

Contemporary estimates of money-lenders in urban America ranged from one loan office for every 20,000 residents, to one for every 5,000.\textsuperscript{34} Directory evidence, which may be considered to provide a minimum figure, indicates one loan office for every 18,813 Pittsburghers in 1900, and one for every 14,430 in 1910. The per capita increase in agencies is greater if the 1909 listings are accepted: 47 offices represented one for every 11,360 residents. Even if the more conservative estimate is accepted, it suggests that there was one money-lending establishment for every 10,065 potential borrowers sixteen years of age or over, and one for every 2,985 families.\textsuperscript{35}

Not all these institutions were individual agencies. Some were service outlets of a national chain. Harry Elwood, located in Pittsburgh's Warbash building, was presumably the same lender who, in 1908, opened a branch on Broadway, New York City.\textsuperscript{36} Similarly the Household Loan Co. and the Pittsburgh Loan Co. were both operated by Weatherly and Co., a Chicago-based enterprise.\textsuperscript{37}


\textsuperscript{33} For evidence on the role of the saloon-keeper as a social agent, willing to provide shelter, find employment, and extend loans on the promise of future patronage, see Frances A. Kellor, \textit{Out of Work. A Study of Unemployment} (New York, 1915), p. 8; on the barber as loaner see \textit{Iron City Trades Journal} (16 April 1903), p. 3.

\textsuperscript{34} The conservative estimate is from Rogers, "American Unthrift," 693; the more liberal figure is from White, "Crusade Against the Loansharks," p. 217. "One Citizen in Twenty a Victim of Loan Sharks," \textit{New York Times} (16 July 1911), part 5, 8, suggested that there existed one small loan business for every 5,000 to 10,000 urban residents.

\textsuperscript{35} Based upon a Pittsburgh population of 451,512 in 1900 and 533,905 in 1910. In the latter year there were 372,409 residents sixteen years of age and over and 110,457 families. See U.S.A., Bureau of the Census, \textit{Census} (1900), II, Table 32; and \textit{Census} (1910), I, table 49; IV, table III.

\textsuperscript{36} Wassam, \textit{Salary Loan Business}, p. 122.

In general such connections were hidden from public gaze. Unusual in this respect, and also in his scale of operations, was D. H. Tolman, cause celebre of innumerable legal actions. Tolman clearly believed that the critical attention which resulted from his publicity was more than compensated for by the fact that potential borrowers could feel secure in dealing with so large and ‘open’ an institution. Moreover, his advertisements, by emphasizing organizational size and a desire for higher class borrowers, gave readers the impression that Tolman was respectable, operating a legitimate credit institution for the benefit of selected clients:

Money for Salaried People
and business concerns advanced upon notes, without security;
cheapest rates; easiest payments; offices in 65 principal cities.
D. H. TOLMAN, Room 715, 611 Penn Ave.

It has been suggested that the creation of a chain of offices, and the horizontal integration of outlets, did not result in economies of scale. This ignores the central fact that a major cost of the supplied service was incurred in securing, storing, and retrieving information. Increases in the number of branches saw a concomitant advance in the ability of enterprises to eliminate poor risk applicants and to trace and extract payment from borrowers who altered residence. Defaults were thereby reduced and economies gained. Moreover, the company with a chain of branch offices was able to transfer funds to areas of greatest demand and, more particularly, to shift funds away from cities in which increased regulation and enforcement restricted charges and profits, or in which reform agitation temporarily impeded operations. This ability to distribute and minimize risk would have made it possible to secure capital investment at a lower rate of interest.

It should also be noted that Pittsburgh’s money-lenders were not scattered geographically about the city. Most were confined to a few blocks in the downtown commercial zone of the city. Indeed over one-quarter of Pittsburgh’s agencies operated along a short stretch of Fourth Avenue and, clustered on one section, soliciting business alongside each other, stood the Penn Discount Co., Allegheny County

38. Joseph E. Shafer, “Small Loans Problem,” *American Economic Review*, 19 (1929): 638, claims that “a chain organization has no advantage over a small concern in this business of making small loans, assuming of course that the size of the individual operating unit, that is the individual loan office, is the same.”
PETER R. SHERGOLD

Finance Co., National Loan Co., State Loan Society, and Reliance Loan Co.39

A few clients may have been able to work through local commissioned intermediaries, but most borrowers were required to appear in the central office at least twice prior to initial loan approval. Thus workers resident north of the Allegheny, south of the Monongahela, or east of downtown had to expend time, and perhaps money, in arranging credit. Why then were sharks not dispersed?

It is possible that the downtown area represented a central point in the spatial distribution of demand for lending services, and that the concentration of activity reflected a desire to minimize customer travel by locating at median distance from a dispersed clientele. However, it might have shown greater economic rationality to have treated the geographically distinct working-class communities—the ‘Hill’, the ‘Strip’, and the river wards of Birmingham and North Side (Allegheny)—as regionally separate markets. Other factors intervened. It is probable that the loan companies gained external economies of scale from their locational proximity, most notably from pooled information with regard to an applicant’s credit status and to a defaulted borrower’s whereabouts.40 It is also possible that the lending agencies shared banking facilities and security arrangements. Finally it might be suggested that the worker, embarrassed by his predicament, and keen to keep his borrowing arrangements secret, preferred the apparent anonymity of a downtown office to the witnessed convenience of neighborhood facilities.

The staggering importance of small loan business in early twentieth-century urban communities can be gauged more clearly in terms of the number and size of loans extended. Investigation of New York City in 1907 suggested that the average number of live loans held by a money-lending agency was between 800 and 1,000.41 If this were true also of Pittsburgh in 1910 it would indicate that 33,000 loans were outstanding at any moment in time: one for every sixteen residents; one for every 3.3 families. Undoubtedly some families held

40. Wassam, Salary Loan Business, pp. 68–69. found that in New York City attempts to create a cooperative information network had failed. Nevertheless there existed an informal system in which loan company “managers . . . [conversed] with one another freely concerning the individuals who [had] loans with them,” and in which—less reliably—agencies inquired “by telephone of the different offices whether or not a certain individual [had] a loan with them and also whether he [was] considered a good risk.”
41. Ibid., p. 24.
more than a single loan. Yet even allowing for such duplication, the evidence from Pittsburgh confirms contemporary estimates which indicated that 20 to 25 percent of urban families borrowed from a loan office in any year.\textsuperscript{42}

Moreover, the annual volume of business would have been greater if loan turnover had been rapid. The most conservative appraisal suggested that the average agency cleared only the 800 to 1,000 loans annually, while a more liberal estimate claimed that "the capital could be loaned at least four times during the year."\textsuperscript{43} If the former figure is accurate it indicates an annual loan clearance of $666,000 in Pittsburgh in 1910; if the latter is correct, it indicates an annual sum of $2,664,000. The city's Chamber of Commerce, making its own estimate in 1909, suggested that the annual loans cleared exceeded $1,500,000.\textsuperscript{44}

In short, the extension of personal loans on the strength of household security or wage assignment comprised, at least in aggregate, big business in early twentieth-century American cities. In what manner was that business performed?

\text{}\textsuperscript{* * * * *}

"Most people think of a dingy office and a crabbed old man" noted New York's Commissioner of Accounts Fosdick in a 1911 report on money-lenders "but the business is well systematized and is run on up-to-date methods."\textsuperscript{45} Most Pittsburghers would have viewed such a statement with scepticism, for to outward appearances there was little indication of business organization or modernity. Many offices comprised single rooms in large buildings; most others were located on second floors, upstairs, through dimly lit halls. Drabness and darkness were usual. Ed Shay, hearing that Pittsburgh's "street car slaves [were] victims of the loan sharks to a large extent . . . determined to learn just what conditions they had to meet when they made a loan." He, like so many before him, found the agency "unwholesome beyond description."\textsuperscript{46}

There existed two major reasons for such a bedraggled appearance. First, the loan offices faced a constant threat of investigation and perhaps temporary closure for charging illegal interest rates, and

\begin{itemize}
  \item \textsuperscript{42} Arthur H. Ham, \textit{The Campaign Against the Loan Shark} (New York, 1912), p. 1.
  \item \textsuperscript{43} Roger, "American Unthrifty," p. 693; Wassam, \textit{Salary Loan Business}, p. 25.
  \item \textsuperscript{44} Pittsburgh Chamber of Commerce, \textit{Year Book and Directory} (1910), p. 45.
  \item \textsuperscript{45} "One Citizen in Twenty a Victim of Loan Sharks," p. 8.
  \item \textsuperscript{46} \textit{Justice} (15 November 1913), p. 1.
\end{itemize}
it is apparent that many concerns remained in a state of preparedness for a hurried departure from Pittsburgh. Second, most agencies wished to preserve their relatively small capital resources for loans, and to devote as little as possible to equipment. A “few chairs, an old table, [and] a high desk separated from the rest of the room by a railing,” together with filing cabinets and a safe, comprised the sum furniture of most offices. 47 Contemporary investigators were unanimously agreed that about $10,000 capital was employed in an average small loan business. Of that only $500 was spent upon office facilities. 48

Yet the shabby functionalism of such offices did not necessarily indicate economic inefficiency. Indeed there exists considerable evidence that most loan sharks devoted considerable entrepreneurial energy to attracting borrowers, collecting credit information, and exacting repayment of outstanding debts. The nature of their business required that they invade privacy and evade legal restrictions, and in pursuit of these ends they revealed, as Commissioner Fosdick suggested, a great deal of drive and dynamism.

The first task was to induce those in need to take advantage of loan facilities. Newspapers provided the most common means of advertisement, and by 1909 the Pittsburgh press was gaining $30,000 each year from money-lenders. 49 The advertising campaign was as subtle as it was extensive. It was necessary that the first-time borrower be convinced of the respectability of his desire for a loan, and his fears of formal debt be assuaged. In consequence advertisements sought to attract customers by emphasizing established respectability, speed of action, confidentiality, and low rates.

DO YOU WANT MONEY?

If you have it at once on your furniture pianos, etc. We being the oldest and most reliable company in the city is our guarantee that you will get the best treatment and lowest rates.

PITTSBURGH LOAN CO.
705 Penn Ave.

Having secured applicants the next stage was to confirm their willingness to meet the stated repayments at rates by no means generous whilst simultaneously assessing their credit reliability by

47. Ware, “The Lures of the Loan Sharks,” p. 32.
49. Pittsburgh Chamber of Commerce, Year Book and Directory (1910), p. 44.
methods far from confidential. In the competitive environment of loan sharking this required considerable skill and finesse.

The applicant was usually received by a woman manager, and D. H. Tolman hired young women exclusively. It was suggested that lending required the "feminine quality of patience" but, far more importantly, such a policy reduced the risk of physical violence from angered clients, and substantially lowered management costs.50

Then the paperwork began.51 The applicant was required to provide family history, parents' names, marital condition, the names of two acquaintances at the place of employment, two personal friends and two trades people, and a variety of other information. This tedious process served a number of functions other than the obvious one of providing the lender with a means of assessing the applicant's creditworthiness. It emphasized the thoroughness of the agency, and its implacability in garnering and substantiating information, and thereby helped to convince the borrower of the foolhardiness of attempting to evade repayment. By having at hand the names of friends and employers the agency had a means of pressurizing recalcitrant borrowers. The threat of exposure before one's peer group, or the fear of dismissal by an unsympathetic employer, were often sufficient to persuade the reluctant debtor to pay. In some instances, moreover, attempts were made to threaten friends named as guarantors, and to exact payment from them in instances in which the client defaulted. Perhaps most important was the psychological impact which the form had upon the wary applicant. "For the purpose of inducing Smith & Co. to lend me$, I do hereby make the following statements" began the form. Almost without warning the deed was done and the commitment affirmed.

At this stage there appeared a variety of other documents to be signed and witnessed: a plain promissory note calling for the amount borrowed, either a mortgage of the chattels upon which the loan was made or an assignment of wages, and a form giving a representative of the loaning company a power of attorney by which to confess


51. The following account has been derived from fragmentary information in Wassam, *Salary Loan Business*, pp. 53–69; Ware, "Lures of the Loan Shark," p. 32; "The Scourge of the Deep Water of City Life," p. 22; *Iron City Trades Journal* (28 May 1909), pp. 1 and 8; (2 June 1909), pp. 1, 4 and 8; (11 June 1909), p. 1; (18 June 1909), pp. 1 and 5; (25 June 1909), pp. 1 and 8; (2 July), pp. 1 and 8; (2 August 1909), p. 1; *Kingsley House Record*, 10 (March 1907: 4–5; and *Pittsburgh Bulletin* (27 May 1911), p. 7.
judgement. Finally a statement of present indebtedness had to be completed. This form, apparently innocuous, was of vital significance to the money-lender, insofar as many borrowers naturally minimized previous financial commitments. In instances in which borrowers proved unwilling to pay their debts, the usual course was to threaten criminal proceedings upon the grounds that the loan had been fraudulently incurred, and thereby to stifle borrower hopes of legal appeal on the basis of unjust interest rates.

The loan applicant was then dismissed, and asked to return in twenty-four to forty-eight hours. A thorough investigation was undertaken, residential and work addresses were checked, and friends and neighbors questioned. A Pittsburgh investigator found that even the request for a $6 loan, extended upon the security of furniture, required personal references and involved a day's delay.52 If the information gathered proved satisfactory, a cash loan was granted, and terms of settlement reiterated.

Then began the major task for the small loan business—to secure payment. Profitability of the enterprise was related to the efficiency with which agreed terms could be enforced and bad debts reduced to a minimum. The threat of automatic imposition of a fine for tardiness induced steady payment. If this was unsuccessful a barrage of letters were sent, sometimes polite, but more often threatening legal action.

However, emphasis was placed upon personal contact, and all agencies employed collectors to receive debt installments and to hound those who were behind with their payments. As with managers they were usually female, and D. H. Tolman employed only women collectors. They proved particularly adept at a technique generally termed 'bawling out', whereby they would confront the debtor while he was in the presence of others, and level abuse at him. "Call yourself an honest man" was one popular opening gambit.

Another significant feature in exacting payment, and thereby increasing business efficiency was the employment of a 'tracer' to locate borrowers who had altered residence and/or place of employment in the hope of evading financial obligations. The tracer able to 'hunt skips' successfully was a major asset to any small loan enterprise.

Nevertheless the collaboration of collector and tracer, supported by the missives mailed from the central office, sometimes failed to

evoked the correct response. Two alternative methods were then introduced, apparently contradictory, but employed most successfully when used simultaneously, and fairly characterized as the carrot-and-stick approach to debt collection.

The 'tough' response was to seize the security provided. Where household goods had been assigned as collateral these were now possessed and sold. Where the loan had been granted upon wage assignment, employers were contacted and urged to garnishee their employee's pay. In fact this approach had no basis in law. But, as the treasurer of a large railroad informed the investigating committee of the Pittsburgh Chamber of Commerce, although the city's loan companies “admitted . . . that they understood very well they could not enforce these assignments against the employer . . . most employers did not know that and could be scared into paying the money over.” Indeed the mere threat of furniture seizure or of employer involvement was often sufficient to convince borrowers to meet their debts.

This was particularly true where loan agencies offered an alternative 'gentle' solution. If repayments were temporarily difficult, it was persuasively argued, second loans could be arranged sufficient to repay outstanding debts, provide a remaining margin of credit, and begin afresh. In a great many instances an alternative loan company was suggested, and it is apparent that a number of agencies specialized in refinancing loans incurred elsewhere.

MONEY TO LOAN CHEAP RATES

If you owe a Loan Company or have any outstanding bills don't worry. We will loan you the money to pay them. SEE US WHEN IN NEED.

GLOBE LOAN CO.
204 Sixth Street  2nd Floor Front

Thus borrowers too easily found themselves having to secure new loans to finance old debts, with each additional transaction involving extra charges, higher interest rates, and concomitantly greater burdens. To their critics the manner in which workers became bound to a position of continuous debt was the natural result of dependence upon loan sharks, an indication that “inhuman wretches [had]

carried on their avaricious methods successfully." In contrast those engaged in the small loan business saw it is a legitimate field of enterprise unfairly stigmatized by ignorant reformers. It was, they argued, a means of financing the needs and desires of workers who had little security to offer, and who were notoriously bad risks; and it was a necessary service which no other institution, private or philanthropic, had proved willing or able to provide. The validity of these conflicting claims can be best analyzed by looking at the organization of opposition to loan sharks in Pittsburgh.

* * * *

In 1909 the newly-organized Russell Sage Foundation, perturbed by information about the pernicious influence of loan sharks amongst urban workers, sought means by which to ameliorate the borrower’s lot. The foundation wished to secure more effective legal control over the field of personal finance, and aimed to establish alternative competitive lending institutions. A Division of Remedial Loans was created which, under the able leadership of Arthur Ham, spearheaded an energetic national campaign of publicity and education in pursuit of its objectives. At the same time a National Federation of Remedial Loan Associations was formed to stimulate the growth of low-profit lending institutions.

In Pittsburgh opposition to loan shark activities appears to have been organized independently. The major initiative was taken by the city’s Chamber of Commerce which carried out an extensive investigation of shark transactions between May and November 1909. "No other single institution has such an adverse effect upon the efficiency and prosperity of our workingmen and correspondingly upon the commercial life of our city as the operations of the loan shark," the Chamber concluded. All socio-economic stratas of Pittsburgh life were hurt, for the small loan business was "not only seriously

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detrimental to the welfare of working men who [were] usually the victims of the business, but [was] a source of annoyance to large employers of labor.”

The Chamber received support from the Legal Aid Committee of the Civic Club of Allegheny County established in 1899. In April 1908 this Committee “merged into the Legal Aid Society of Pittsburgh, composed of young attorneys” and became incorporated as a philanthropic organization. Its charter dedicated the society to rendering legal aid and assistance, gratuitously if necessary, to those “unjustly oppressed through unconscionable abuse of legal means.” Loan businesses were clearly envisaged as a major source of abuse. Indeed, as the popular press noted, one specific aim of the Society was to challenge “the unholy devices of loan sharks.” Between 1909 and 1911, 81 instances of usurious loans were handled, comprising 13.6 percent of the cases fought. In the latter year Pittsburgh hosted a convention of legal aid societies at which the issue of loan sharking was selected as the major topic of debate.

The campaign against the loan shark also received backing from organized labor. The Iron City Trades Journal, official organ of Pittsburgh’s Trade Council, extended wholehearted support to the chamber, and voluntarily collected its own evidence on the methods of small loan businesses. At a major meeting organized by the chamber in June 1909, W. L. Loeser of the Central Labor Union of Harrisburg, spoke on behalf of tougher legislative control of loan transactions.

Opposition to sharks provided a rare instance of Pittsburgh’s progressive employers and the representatives of their employees joining forces against a mutual enemy.

The specific criticisms levelled against Pittsburgh’s small loan agencies varied. Many opponents believed that the loan sharks

60. Pittsburgh Index (11 April 1908), p. 4.
wielded undue influence over the press. The Chamber of Commerce claimed that the dependence of local newspapers upon the revenue received from publishing loan advertisements meant that "it was practically impossible for the . . . investigation of the loan shark business to receive any publicity during its progress."\(^{66}\) Such allegations were confirmed in the eyes of critics by the manner in which loan agencies attempted to intimidate newspaper proprietors. When the \textit{Iron City Trades Journal} published an article critical of sharks, and refused to accept further advertising, a loan agency returned an outstanding bill unpaid. Attached was a curt, if confused, message: "YOU CAN CANCEL THIS. WILL PAY IT, NIT. WHO WROTE THAT ARTICLE? IT SEEMS YOU FELLOWS DON'T KNOW WHEN YOU ARE WELL OFF."\(^{67}\)

Many Pittsburghers believed that the influence of loan sharks extended beyond the press. It was suspected that lenders wielded undue power over politicians, and that enforcement agencies were dissuaded from exercising their legitimate powers. In June 1909 Pennsylvania passed the Fox Act which required that money lenders be licensed. No attempt was made to meet these provisions. "What is the matter, Mr. Clerk of Courts and Mr. District Attorney", asked an irate labor editorial. "Does not this law affect Allegheny County?"\(^{68}\) It was not only in the Pittsburgh area that such accusations were levelled. Arthur Ham, finding existing laws to be "constantly and uniformly invaded, ignored and defied," concluded that there appeared to be "wholesale legislative corruption, collusion of officers of the law and connivance of city employees holding positions of authority."\(^{69}\)

It was also claimed that small loan businesses engaged in unfair trade practices. In June 1908 a case appeared before Pittsburgh's Common Pleas Court which suggested that chattels possessed on account of default in debt payments were sold at below market value to agents of the money lender. Thus C. Williams, of the Allegheny Loan and Trust Co., claimed the household goods which one Catherine Fagan had mortgaged as security on a $200 loan. The goods were sold, for $25, to a Mr. Atkins, whom it subsequently

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transpired was employed by Williams. In this instance the possessions were left in the house upon condition that Mrs. Fagan raise $200 within 24 hours. She did.\textsuperscript{70}

Another practice deprecated by critics was the use of a variety of trading names. It was alleged that sharks owning more than one agency purposefully hid this fact behind a veil of supposedly distinct office fronts. In situations in which a second loan required negotiation the first establishment often suggested an alternative office. The customer was unlikely to realize that the office recommended was organizationally related to the original establishment. "Very often two or more companies are conducted by the same owner . . . for the express purpose of giving them additional advantage in extorting usury from the victims," claimed the \textit{Iron City Trades Journal}. "It has been clearly proven that where a victim has repaid a part of a loan, and is unable to make a payment as demanded by the loan shark, he is directed to go to the other company . . . and make a new loan and pay off the first one."\textsuperscript{71}

Such criticisms could be extended. However the single, major issue upon which loan agencies were attacked, and upon which the case against sharks ultimately stood, was the rate of interest charged clients. Borrowers, it was consistently argued, were forced to pay a rate of interest which was exorbitant. Computing effective annual rates of interest for short-term loans poses substantial statistical problems, requiring a complex formula able to incorporate data on the number and frequency of installments, the ability of the borrower to renegotiate repayment terms, and the extent of genuine non-interest charges.\textsuperscript{72} In general, contemporary observers estimated a simple annual rate of interest which suggested that rates varied between 120 to 600 percent per annum.\textsuperscript{73} However some observers claimed that rates could reach as high as 1,000 percent.\textsuperscript{74}

Fortunately it is possible to test these claims. Pittsburgh Chamber of Commerce, Kingsley House settlement, the Legal Aid Society,\textsuperscript{70} \textit{Iron City Trades Journal} (11 June 1909), p. 1.

\textsuperscript{71} Ibid., (25 June 1909), p. 8.


\textsuperscript{74} White, "The Crusade Against the Loan Shark," p. 218.
TABLE 3

LOAN TERMS IN PITTSBURGH: 1908–1910

<table>
<thead>
<tr>
<th>Case</th>
<th>Principal Borrowed ($)</th>
<th>Installment Frequency</th>
<th>Period of Loan (Months)</th>
<th>Security</th>
<th>Amount Repaid ($)</th>
<th>Simple Annual Interest (%)</th>
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<tr>
<td>1</td>
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<td></td>
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<td></td>
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</tr>
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<td>household goods</td>
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<td>12</td>
<td></td>
<td>405.00</td>
<td>47.3</td>
</tr>
</tbody>
</table>


and the Iron City Trades Council collected information from those who had entered into contracts with moneylenders in 1908–09. The published statements appear reliable insofar as all testimony was sworn and signed, and was available as evidence for possible legal battles. On the other hand those borrowers who volunteered evidence were presumably those dissatisfied with their terms, a sample bias which suggests that the statistical evidence presented in Table 3 be treated as maximum rates for first loans.
Although evidence from other cities indicates that small loan businesses generally required weekly payments, monthly installments were normal in Pittsburgh. Contemporaries suggested that loans secured by chattel-mortgages were larger and longer term than loans secured by wage assignment, but the evidence from Pittsburgh fails to substantiate this hypothesis. A $15 loan was based upon furniture, whilst a $230 was extended on the basis of wages. One obvious pattern emerges from the statistical data. The larger the loan the longer was the period of repayment granted, and the lower the rate of interest charged. The maximum loan period seems to have been one year. Where loans of equal value were contracted, speedier repayments resulted in reduced annual interest.

Simple interest rates were substantially lower than critics suggested. Only smaller loans, of $25 or less, resulted in interest in excess of 100 percent per annum. Loans of $40 to $50 involved interest rates of approximately 60 percent; loans in excess of $100 about 40 percent. These rates are computed on the assumption that all charges levied comprised interest on the principal extended, whereas loan agencies argued that repayments incorporated genuine fees for appraisal, processing, and banking.

Nevertheless, the rates of interest faced by needy workers were enormous compared to the rates at which commercial loans were extended, and vastly larger than the 'legal' limits on usury. Pittsburgh's pawnbrokers, controlled by city ordinance, were permitted to charge a maximum of 6 percent per annum or—more accurately—0.5 percent per month. Yet it should be realized that pawnbrokers were allowed to levy a variety of administrative charges which raised actual simple rates to 240 percent on small loans, and to approximately 120 percent on loans greater than $100. Such rates, of course, reflected the fact that most loans extended by pawnbrokers were for shorter time periods than those provided by loan agencies. On the other hand the pawnbroker, through physical possession of the pledge, had far greater security than did the loan shark.

75. Patterson, "Pawnbroking," pp. 267 and 270. For further details on the 1901 Act of Assembly by which Pittsburgh's pawnbrokers were controlled see R. Cornelius Ruby, The Regulation of Pawnbroking (New York, 1929), p. 15.

In terms of the limited assets and financial capabilities of Pittsburgh's low-income earners rates of interest were clearly excessive. It is fair to argue that economic conditions should not have existed in which workers were forced to seek credit on such unsatisfactory terms, or that welfare organizations should have been available to meet the obvious need for short-term loans in a more socially acceptable manner. However it is unsatisfactory to assess the business practices of early twentieth-century small loan agencies by such standards. They should be judged as business, not philanthropic, institutions, operating within an established market economy. As business concerns that filled a gap in the contemporary credit structure, and which developed in response to existing economic demand. In this more limited context claims of excessive charges imply that loan sharks exploited powerless workers in order to secure net profits far above accepted levels.

Most contemporary critics believed this to be the case. Pittsburgh's Chamber of Commerce, for example, thought it possible to establish a loan society which would provide finance at substantially lower interest rates and still pay satisfactory dividends of from 4 to 5 percent. John M. Glenn, General Director of the Russell Sage Foundation, claimed that if institutions lent money on the easiest terms "compatible with a fair return on capital invested", rates could be lowered below existing levels. Yet the historical evidence is dubious.

The high interest charged by loan sharks reflected, in large measure, the unwillingness and/or inability of other institutions to extend loans to poor-risk, low-income families who possessed little security. Losses were much greater than in the very limited personal finance which commercial banks provided for trusted customers. Small loan businesses found it necessary to wage a hard and costly campaign against 'slows' and 'skips', a campaign not always successful in a large anonymous urban community in which labor turnover and spatial mobility were increased by the constant influx of new immigrants. The most conservative estimate, based upon the prospectuses agencies prepared to attract capital,

77. Pittsburgh Chamber of Commerce, Year Book and Directory (1909), p. 46.
78. Arthur H. Ham and Leonard G. Robinson, A Credit Union Primer (New York, 1914), p. i. The American Commissioner of Labor, Charles P. Neill, "The Standard of Living," Charities and the Commons, 14 (1905): 943, shared this view, demanding that the 'pawnbroking' field "be taken out of the hands of Shylocks, and put in the hands of people willing to get a fair return on their investment."
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indicated an annual loan loss of 10 percent, but most observers thought that the extent of loan ‘jumping’ was much greater. 79

Moreover the small size of the average loan incurred higher relative costs than the larger loans extended by commercial banks. The effort involved in processing a loan, investigating credit-worthiness, assessing the value of household goods, and collecting payments, was as great for $5.00 as it was for $200.00, and the costs involved—per dollar loaned—concomitantly larger.

The difficulties incurred in working in a hostile business environment, forever facing possible legal action, also increased costs to the borrower. The loan shark was forced to indemnify himself against the risk of criminal prosecution by charging higher rates of interest. Illegality made it harder to enforce repayment. It also made more difficult the task of attracting investment. Whilst banks were able to secure relatively cheap deposits, small loan business had to attract high risk capital by offering large returns. All such costs were passed on to the ultimate borrower, the indebted worker who had exhausted other means of securing credit facilities.

Finally it should be noted that banks engaged in a wide variety of commercial enterprises which effectively subsidized the extension of personal finance. It was suggested that banks had “an eye on other things than profit from (consumer) loans,” such as the creation of good will, and an increase in bank custom. 80 Indeed, it was claimed, as late as 1929, that “not a single authenticated instance [had] come to hand of a bank making any profit” out of small loans. 81

In brief, it could be argued that the conditions under which Pittsburgh’s small loan agencies operated demanded that high interest rates be charged if accepted business profits were to be made. The activities—and even the successes—of those opposed to loan sharks add weight to such an argument. In Pittsburgh, as in many other American cities, reform groups formed a remedial loan association to provide workers with credit facilities at more reasonable rates. The Provident Collateral Association was established for this purpose in 1909. 82

81. Ibid., p. 640.
It was hoped to charge maximum interest rates of two percent per month, but it is unclear whether this included appraisal fees. Certainly it failed to create conditions under which the loan shark became superfluous. After an initial decline in listed loan agencies between 1909 and 1911, numbers increased once more in 1912–13. If, as seems likely, the semi-philanthropic association catered only to the more credit-worthy aid applicants, the remaining pool of borrowers would have remained dependent upon commercial money lenders. To the extent that the association creamed off superior clients, loan sharks may have been tempted to charge higher rates to the residual poor-risk market.

At the same time reform groups waged an extended legal battle. In 1909 Pennsylvania passed the Fox 'Loan Shark' Act which insisted that all loan companies take out a licence from the Court of Quarter Sessions, required all wage assignment contracts to be counter-signed by the borrower’s employer and spouse, and prohibited the imposition of extra charges for renewing a loan. It also set the maximum interest rate at six percent per annum plus a brokerage fee of ten percent. Thus a $20 loan for four months would have required the repayment of $22.40, effectively a simple annual rate of 36 percent. A $10 loan for three months implied a rate of 46 percent annually. Unfortunately it is impossible to assess the act’s impact, for within a few months it was declared unconstitutional. For some years Pittsburgh’s reformers had little alternative but to fight legal wrangles over the excessive nature of rates contracted in particular instances, or to take agencies to court as 'disorderly houses'.

More successful was the national movement for the introduction of a uniform small loan law in all American states, and the development of the campaign is particularly instructive to the business historian. At first it was believed that small loan businesses should be made to operate on terms similar to banking institutions. As late as 1913, for example, President Taft signed into law a Congressional act which set the maximum monthly interest in the District of Columbia at one percent. Yet as reformers explored

88. Ibid., p. 221.
business operations in greater depth, and as they acquired expertise in remedial loan enterprises, they rapidly came to the conclusion that such rates were counterproductive. Small short-period loans could not be extended to poor-risk, low-security borrowers upon such generous terms. The more respectable agencies retired from the business, and remaining sharks, facing an increased threat of prosecution, and operating in a less competitive market, increased charges accordingly.

In consequence reform leaders found themselves having to berate their followers for being unduly dogmatic in their views on the fair rate of usury. "One of the most difficult tasks . . . has been to convince persons interested in the remedial loan movement that the small loan business cannot be conducted on the basis of interest rates allowed to banking institutions," recorded Arthur Ham in late 1913. The "small loan society, having no deposits, must do its business on its capital alone, and in order to pay operating expenses, to meet losses, and to provide a reasonable return on the investment, a rate of interest of from one to two percent a month must be charged." 88 Or, as John M. Glenn noted in the following year, small-loan agencies were obliged to "charge from twice to four times the ordinary commercial rates for loans." 89 Thus the Chattel Loan Society of New York, extending credit only to those carefully scrutinized borrowers able to offer household chattels as security, still found itself required to charge two percent interest per month, and to impose an additional investigation fee. 90

Nevertheless even these rates proved too optimistic. Remedial loan societies soon found it hard to function effectively under such constraints. Moreover the introduction of the first state regulatory laws based upon such interest levels tended to reduce the total amount of loans available to needy workers as dissatisfied loan businesses left the field. 91 By the time a revised loan shark law was enacted in Pennsylvania in 1913 higher maximums had been established. Agencies were allowed to charge six percent per annum, plus ten percent of the amount loaned, plus a dollar examination fee for loans under $50: 92 thus a $20 loan for four months resulted

89. Ham and Robinson, A Credit Union Primer, p. i.
90. White, "The Crusade Against the Loan Sharks," p. 221.
in 51 percent simple annual interest; a $10 loan for three months a rate of 86 percent. And by the time a new, broader loan law was passed in Pennsylvania in 1915 the basic rate, exclusive of brokerage fees, was fixed at 3.5 percent monthly. This was the rate now recommended by the Russell Sage Foundation's Department of Remedial Loans under the plan to enact a uniform small loan law in all states. It signified the long way down the sad path to reality that reformers had been forced to walk in the few short years since 1909.

Thus by 1915 it had become generally accepted amongst concerned reformers that small loan businesses required simple annual interest rates of 42 percent, together with a small brokerage fee, in order to achieve economic viability. Such rates were, it is true, somewhat lower than those commonly demanded by Pittsburgh's loan sharks earlier in the century. But two points should be borne in mind.

First, it must be recognized that the rates established were those to be charged in an environment of legal sanctity. Offices which registered under the uniform small loan act no longer had to indemnify themselves against prosecution. Moreover contractual obligations could be sustained in court with the result that by the 1920s bad debts had been reduced to less than 0.5 percent of loans extended. The consequent increase in business efficiency, coupled with newly acquired legitimacy, made it easier (and less expensive) to attract capital investment.

Second, it should be appreciated that even rates of 3.5 percent per month do not seem to have been high enough to attract non-philanthropic business enterprise. The initial result of uniform small loan laws was "a severe reduction in the number of lenders and a slight reduction in the capital available for loans." Although some observers believed that business expanded in the 1920s most remained convinced that the number of authorized loan companies had declined. Certainly the liberal rates of interest failed to generate a supply of loan funds sufficient to meet consumer needs.

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93. General Form of Uniform Small Loan Law (New York, 1926), p. 10. This anonymous pamphlet was published by the Russell Sage Foundation.
demand. It was for that reason that criminals, willing to risk legal penalty and community opprobrium, entered the field of personal finance. The continued inability of legitimate business to cope with the needs of low-income earners for small, short-term loans, meant that organized syndicates were able to attain substantial profits by providing credit facilities at interest rates far higher than those legally approved.

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Loan sharks are, by their very nature, elusive individuals, about whom it is difficult to generalize. Nevertheless analysis of their early twentieth-century business practices, and of the limited successes of Progressive critics, suggests that the virulent attack against small-loan companies, and the outraged sense of justice with which accusations were levelled, was only partially valid. The small-loan office provided a need which was too readily ignored, and too little understood. In the harsh and unstable socio-economic environment in which urban workers lived, 'Shylock'—however contemptible—was a necessary figure. To treat him as qualitatively different from other businessmen was naive: he was no more, and no less, a 'shark' than the 'robber barons' whose exploits dominated the contemporary press. The belief that it was possible to isolate loan sharks, to restrict, reform and control their activities, whilst largely ignoring the conditions which nurtured their existence, was directly responsible for the large-scale entry of criminal elements into the small-loan business. Perhaps a little historical knowledge may prevent present-day reformers from committing a similar error.