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Bringing “Honest Capital” to Poor Borrowers: The Passage of the U.S. Uniform Small Loan Law,

1907–1930 Policymakers nearly everywhere continue to grapple with an age-old problem—how to make credit available to poor and working people on terms that do not ruin borrowers. In the period under study, this question, usually called the “small-loan” problem, was a central concern of the Russell Sage Foundation (RSF) from its foundation in 1907 to World War II. Through lobbying, research, publications, and other efforts, the RSF identified itself as the clearinghouse for information, the leader of several reform proposals, and the primary interlocutor for lenders and industry groups that sought to improve their industry’s image. This article focuses on the RSF’s main initiative, the Uniform Small Loan Law (USLL), also paying considerable attention to the RSF’s role in drafting and promoting the measure.

The small loans at issue herein were made by three types of private lenders before the intervention of the RSF and others. “Chattel loans” were secured on some type of property, such as

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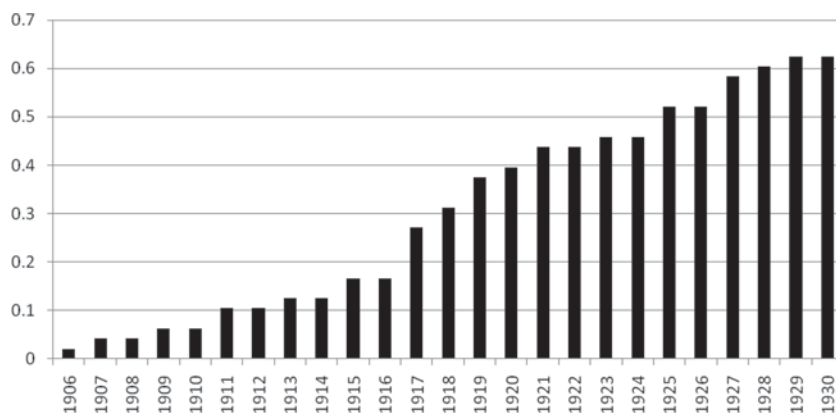
household furniture. Pawnbrokers took the loan security into their possession for the duration of the loan. A third class of lenders did not rely on security of this form. Rather, they ensured repayment by lending to employed individuals whose salary could be attached for non-payment of the loan; in many cases, the threat of revealing a loan to an employer brought the result the lender desired. Other lenders relied on threats of shame to ensure repayment.

A uniform law is a model bill enacted separately in many state legislatures. In theory, the uniform-law approach can lead to every state having the same law for the matter in question. The USLL reflected two central ideas. The law's supporters thought that making small loans was inherently expensive, and that the only way to have it done by legitimate business was to allow small-loan lenders to charge up to 3.5 percent interest per month, far in excess of the interest rates allowed under existing state-usury laws. The law reflected the perception that borrowers were hurt less by high interest rates than by other features of the "loan-sharking" business.

Two-thirds of the states passed the USLL, which inspired central provisions of the 1968 federal Truth in Lending Act. Figure 1 displays the time path of the USLL's passage to 1930. Figure 2, which shows the states that passed the measure and year of passage, suggests the existence of geographical spillovers—the subject of econometric investigation. The issues raised in connection with the USLL remain with us today. Interest rates charged by pawnshops and so-called "payday" lenders seem exorbitant compared to bank loans. Like the lenders that the USLL sought to displace, contemporary providers of small loans argue that the cost of lending in this market requires high interest rates to generate a competitive return on invested capital.¹

After tracing the origins and passage of the USLL, we develop and estimate econometric models of the law's progress through the states. The econometric analysis reflects our reading of the RSF's rich archives, its own publications, and other contemporary

1 For the federal Truth in Lending Act and the USLL, see Jonathan M. Landers, "Determining the Finance Charge under the Truth in Lending Act," *American Bar Foundation Research Journal*, II (1977), 25. According to Elizabeth Renuart, "Payday Loans: A Model State Statute," Public Policy Institute, 2000, available at <http://research.arp.org>, n. 8, "Language from the uniform statute [the USLL] appears in numerous consumer finance statutes today." For a recent discussion of payday lenders, see Michael A. Stegman, "Payday Lending," *Journal of Economic Perspectives*, XXI (2007), 169–190.

Fig. 1 Proportion of States That Had Passed the USLL by Given Year

writings. The larger project of which this article is a part addresses several related issues that cannot be discussed at length herein.²

CREDIT FOR THE POOR AND THE FOUNDATION'S ACTIVITIES The RSF was established in April 1907 in New York City. Credit for poor people was an initial concern, and it remained so until World War II. Starting in the 1890s, reformers in the United States came to view the lack of good credit as a serious contributor to poverty. In their eyes, borrowers usually sought small loans because of financial necessity—unexpected medical expenses or interrupted income due to unemployment. The circumstances surrounding emergency borrowing threatened to drive small debtors into the hands of loan sharks and other unscrupulous lenders. The RSF's first initiatives were attempts to find alternative sources of credit for poor people that could push the high-rate lenders out of busi-

2 Elisabeth A. Anderson, Carruthers, and Guinnane, "Expert Jurisdiction and Social Problems: The Russell Sage Foundation and Credit for Poor People in Early Twentieth Century America," unpub. paper (2010), studies how the RSF positioned itself as a source of expertise in the general area of credit for poor people. This paper contains more extensive narrative and archival material not reproduced herein. Carruthers and Guinnane, "Why the Uniform Small Loan Law? The Russell Sage Foundation, Political and Administrative Feasibility, and the Regulation of Consumer Credit Markets in the United States, 1900–1940," unpub. paper (2010), addresses the broader question of why the RSF decided to push the USLL after a brief involvement with other remedies. A third paper, also by Carruthers and Guinnane, not yet finalized, will deal more directly with the economics of small-loan lending under the USLL—what kinds of firms entered the market, what kind of profits they earned, and how they responded to the maximum rate cuts later imposed by certain states.

Arthur Ham, the first RSF employee to concentrate on the small-loan issue, left the Foundation in 1919 (although he remained involved in the issue elsewhere). When Walter Hilborn, a lawyer who replaced him, left the Foundation in 1925, the RSF hired Leon Henderson to run its credit division. Henderson had political connections and experience; he had previously worked for the governor of Pennsylvania and afterward held several Federal offices under the New Deal. Rolf Nugent, Henderson's assistant, who took over as the Foundation's director for credit matters in 1934, continued the advocacy work while also embarking on systematic research. Nugent was seconded to the federal government and later to the United Nations' precursor, and never replaced at the RSF. When he died in 1946, the RSF shut down the relevant department and discontinued all efforts in this field, though, in truth, its efforts had been moribund even before 1942 when Nugent left.⁴

The RSF also played an instrumental role in the early days of the U.S. credit-union movement. Its ardor for credit unions cooled considerably by the 1920s, however, for several reasons, among them the RSF's intellectual understanding of the small-loan problem. The philosophical, political, and economic underpinnings of the credit-union and USLL approaches were by no means the same. Credit unions run on a not-for-profit basis, distributing all surplus to members through higher rates on deposits, lower loan costs, or dividends on membership shares. The USLL's approach, by contrast, was to increase legitimate lending by attracting private capital with the promise of profits. Just as important were institutional and personal conflicts. Edward Filene's Twentieth Century Fund had staked out credit unions as its turf in the credit arena, and though the Fund tried several times to work out a *modus vivendi* with the RSF, the relationship was awkward at best. There was also considerable personal conflict between Nugent and Roy Bergengren, who was Filene's man for the credit-union

borrowers under the USLL did not, by its authors' admission, yield a useful dataset. See Robinson and Maude E. Stearns, *Ten Thousand Small Loans* (New York, 1930). The Provident Loan Society was founded in 1894 as a project of New York's Charity Organization Society. See *Fifty Years of Remedial Lending* (New York, 1944).

⁴ Glenn, Brandt, and Andrews, *Russell Sage Foundation*, I, 136–151, and II, 531–548, provides an overview of the RSF's credit department. The RSF changed the name of the original department from "Remedial Loans" to "Consumer Credit Studies" in 1938.

groups. But the problems ran deeper; some saw credit unions as threats to for-profit small-loan brokers. In 1923, a credit-union enabling act in Illinois went down to defeat because of the influence of small-loan lenders.⁵

The RSF also encouraged consumer lending by commercial banks. Banks were late entrants into this field, in part because of legal restrictions on the lending activities of national banks. The first personal-loan department in a commercial bank dates to 1924. The RSF assisted several New York banks in setting up these new loan departments. It also considered various legislative measures for banks, although they ran aground on the question of whether state laws legalizing personal loans would apply to federally chartered banks. Certain banks objected to the legislation proposed by the RSF. In general, and despite the efforts of the RSF, commercial banks were slow to make small loans to individuals.⁶

THE UNIFORM SMALL LOAN LAW The RSF's involvement in the USLL involved two separate tasks—writing (in consultation with other interested parties) a model law suitable for adoption in multiple jurisdictions and encouraging its promulgation, passage, and enforcement. This particular uniform-law strategy was relatively new to American politics, but it was not the invention of the RSF. Starting in the 1880s, the newly established American Bar Association devised a long-term plan to codify and standardize state laws. Legal variability and uncertainty across jurisdictions were an ongo-

5 For the RSF's roles in the credit-union movement, see Moody and Fite, *Credit-Union Movement*, 37–88; Glenn, Brandt, and Andrews, *Russell Sage Foundation*, 146–149. Filene hired Bergengren in 1921 to work for Filene's Credit Union Extension Bureau. We document Bergengren's conflicts with the RSF in Anderson, Carruthers, and Guinnane, "Expert Jurisdiction." For the Illinois credit-union law, see letter from Bergengren to Coombs, April 16, 1923, Box 26, Folder 20, Rockefeller Archive Center. The RSF's credit activities left two archives. The larger one is in the Library of Congress manuscripts division, Washington, D.C. (hereinafter LC). A smaller body of material considered too sensitive for public dissemination was deposited with the Rockefeller Archive Center, Tarrytown, New York (hereinafter RAC).

6 See Robinson and Nugent, *Regulation*, 156–157. One bank that set up a new loan department was the First National City Bank of New York. Charles Norton, its president, joined the RSF board of trustees in 1918. See 28/216 "Memoranda of Information Requested by Trustees' Committee on Small Loan Question," RAC; *New York Times*, 13 May 1928, 134. The legal issues are reviewed in "Applicability of State Statutes to National Banks" folder, 101, LC. See also "City Bank—Washington DC" folder, 105, LC. Nugent believed that commercial banks were simply afraid to admit publicly how much they would have to charge for a small loan ("Memorandum April 27, 1943," 24/188, 6, RAC).

ing problem. National legislation to deal with various social and economic problems was not an option because of how the U.S. Constitution allocated powers between the state and national governments. The uniform-law strategy seemed to be a way through these constraints. Promulgating law at the state level ensured constitutionality, but at the same time, legal uniformity defused the problems created by multiple jurisdictions. One of the prime movers behind uniform laws was the National Conference of Commissioners on Uniform State Laws (NCCUSL). The RSF correspondence suggests that the RSF tried to coordinate with the NCCUSL about laws pertaining to credit.⁷

The first uniform law proposed by the NCCUSL was the Uniform Negotiable Instruments Act of 1896, adopted in thirty-eight states and territories by 1910. It was followed by the Uniform Receipts Act, Uniform Sales Act, Uniform Bills Of Lading Act, and so on. Indeed, by 1919, eleven of the thirteen uniform laws adopted by states were commercial in nature. As a commercial law serving a social purpose, the USLL was something of a hybrid, but it was not the only uniform law that had a social purpose. There were uniform laws proposed for enabling credit unions and savings banks, for example.⁸

The RSF and the USLL At first, the RSF's legislative work consisted largely of pushing state authorities to enforce existing laws. Although Ham was apparently enthusiastic about these "crusades," the RSF began to shift its efforts toward legislation. Starting in 1910, Ham worked with state legislatures to regulate the small-loan business. Those few states, like Massachusetts, that already had special small-loan statutes on their books clearly formed the blueprint for the USLL. By 1913, Ham, in coordination with the National Federation's Committee on Legislation, had worked out eight key features that all state laws should contain. The successive

7 J. A. C. Grant, "The Search for Uniformity of Law," *American Political Science Review*, XXXII (1938), 1082-1098, details the uniform-law strategy. John P. Frank, "The American Law Institute, 1923-1998," *Hofstra Law Review*, XXVI (1998), 615-639, and G. Edward White, "The American Law Institute and the Triumph of Modernist Jurisprudence," *Law and History Review*, XV (1997), 1-47, discuss the creation of the Uniform Commercial Code (UCC). For the RSF's approach to the NCCUSL, see letter of November, 17, 1919, to J. Hansell Merrill, appointed by the NCCUSL to consider anti-loan shark laws, "Anti-Loan Shark Committee" folder, 4, LC.

8 John A. Lapp, "Uniform State Legislation," *American Political Science Review*, IV (1910), 576-581; Frederic H. Guild, "Uniform Legislation," *ibid.*, XIV (1920), 458-460.

drafts of the USLL negotiated during the next decades all reflected these core ideas: (1) licenses for lenders who charged more than the legal interest rate set for banks; (2) bonds to ensure observance of the law; (3) a maximum interest rate higher than that allowed for banks (3.5 percent per month), coupled with a prohibition on ancillary fees; (4) enforcement by public officials; (5) penalties for violation; (6) notice to employers and to borrowers' spouses about any assignment of wages; (7) records that could be inspected by a supervision officer; and (8) memorandums of transactions, along with relevant sections of state law, for all borrowers.

In all of its versions, the USLL defined a small loan as \$300 or less. In 1925, the average annual earnings of a non-farm worker were \$1,434. The first incarnation of the RSF's USLL was New Jersey's Egan Act, passed in 1914. Ham served as far more than a technical advisor in the passage of this Act. He drafted the legislation and helped to organize support at each stage of the bill's legislative career—a pattern that continued, even after Ham left the RSF, in the USLL's revisions and in the attempts to pass it in all of the remaining states. By 1915, when six states had the USLL, political opposition to the measure grew more organized. The law passed on close votes in six more states in 1917, but it failed in California.⁹

Internal RSF documents reflect considerable lobbying by the RSF to secure passage. By 1929, RSF staff had made field visits to more than thirty states, meeting with legislators, staffers, and other interested parties to urge adoption of the USLL. When Leon Henderson was hired by the RSF in 1925, his first act was to visit the states where the USLL was in operation. Through 1929, he was heavily involved in organizing support for the Act in the states where it was in play and in opposing efforts to weaken the law in states that had enacted it earlier.¹⁰

RSF staffers divided the USLL's opponents into two groups. These groups did not correspond to party-political blocks but were often ad-hoc coalitions of interests representing the current small-loan lenders. Henderson wrote to John Glenn (the RSF director) in March 1927 from Topeka, Kansas, noting, "The salary buyers were very active but did not make any progress until last

9 Earnings data from Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Washington, D.C., 1975), Series D-780.

10 Glenn, Brandt, and Andrews, *Russell Sage Foundation*, 324–343; 28/216, RAC.

week when they seemed to have connected up with some Republican enemies of the Governor, who has been helping us all the time. . . . There is no doubt in my mind that a big bundle of money was used against our bill.” In state after state, it was the RSF versus the same “loan sharks” and salary lenders that the RSF hoped to drive out of the small-loan market. The other opponents were, in the RSF’s view, well-intentioned but ill-informed: “The well-meaning citizen shuddered at the thought of legalizing a rate for the needy borrower so much in excess of the rates charged by banks.” Sometimes the high-rate lenders also posed as the “well-meaning citizen.”¹¹

The RSF had two distinct types of allies. One group of allies included the wage earners that high-rate lenders tended to harm, directly or indirectly, and some labor unions, as well as certain large manufacturing firms that had workers who were especially appealing as customers to abusive lenders. In the 1920s, such firms often paid relatively well and had organized personnel departments that made it simple for lenders to attach wages. Firms of this sort often lent support to the USLL effort. While working to pass the USLL in Missouri in 1927, Henderson wrote to Glenn about both enemies and friends: “The loan sharks, particularly from St. Louis, have been doing their work quietly and we may not have located all the possible sources of opposition. On the other hand, last week representatives of the railroad brotherhoods, the state federation of labor, the attorney representing the railroads and the street car lines from Kansas City, and several others were working for us.” The railroad’s attorney is especially interesting, and indicative of the willingness of large firms to prevent their workers from becoming entangled with loan sharks.¹²

11 The first quotation is from 24/187, March 7, 1927, letter from Henderson to Glenn, RAC. The term *salary buyer* refers to a tactic that some loan sharks used to escape usury laws; they claimed to be buying future salary payments rather than making a loan. Other RSF documents refer to opposition from “loan sharks” in Kentucky and Alabama. See “Opposition to Consumer Credit Legislation, Particularly That of Loan Sharks,” folder, 5, 1C. For Kentucky, see also the *New York Times*, 12 Jan. 1930, 61; 14 Feb. 1932, E5. The second quotation appears in Robinson and Nugent, *Regulation*, 121.

12 Letter from Henderson to Glenn, Chicago, March 27, 1927, 24/187, RAC. The attitudes of union leaders were mixed. National union leaders often supported the USLL, but local union representatives sometimes did not. In the hearings on a version of the USLL for the District of Columbia, for example, the representative of the American Federation of Labor spoke in favor of the bill. See House of Representatives, “Credit Unions and Small Loans,” Hearings before the Committee on the District of Columbia, Seventy-First Congress (Washing-

The strongest alliance, however, was with the “legitimate” small-loan lenders. Over the years, RSF staff consulted multiple times with organizations like the American Industrial Lenders Association (AILA) and its successor, the American Association of Personal Finance Companies (AAPFC). The RSF recognized that to push the loan sharks out of credit markets, it would have to promote legitimate lenders: “[O]nce the small loan business is established, the support of a substantial part of the lending fraternity is vital to satisfactory revision of an existing [small loan] law.”¹³

Reactions to the USLL were complex. Some lenders opposed the law and evaded it after its passage. Others welcomed the law because it made lenders more respectable and facilitated legal enforcement of their loan terms. As Robinson and Nugent pointed out, part of the difference in lenders’ views of the USLL reflected lenders’ efficiency. A number of them could never survive at any capped interest rate, whereas others stood to benefit from the USLL: “[W]hile rates of profit came down under the regulation, operations were more profitable than had been anticipated because losses were reduced, costs were cut, and better borrowers came to the loan offices. Thus, while the conception of a fair interest rate held by the National Federation and the [Russell Sage Foundation’s] Department of Remedial Loans was tending upward, the rate which chattel lenders were willing to accept was coming down.” In particular, the RSF worked with the AILA and AAPFC to revise the model USLL through its multiple iterations. At times, RSF staff worried that their relationship with so-called “industrial lenders” would make the RSF look like a mere handmaiden of the industry.¹⁴

The Logic of the USLL The USLL’s core logic was unusual for its time. Bergengren’s dismissive characterization of the RSF as the “42 percent foundation” (3.5 percent monthly interest roughly

ton, D.C., 1931), 41. The Kentucky State Federation of Labor, however, opposed the measure (House of Representatives 1930, 111). House of Representatives, “Small Loans in the District of Columbia,” Hearings before the Subcommittee on Judiciary of the Committee on the District of Columbia, Seventy-First Congress (Washington, D.C., 1930), 111.

13 24/188, 1–2, RAC.

14 Quotation is from Robinson and Nugent, *Regulation*, 110, also in 24/188, 1–2, RAC. Details of these consultations are in 3/22, 57, RAC. Elsewhere, RSF staff noted, “One of the greatest influences for improvement in the small loan field is the national association of lenders which now numbers four or five hundred members” (24/187, RAC). This collaboration is documented in 27/207, RAC.

equals 42 percent annually) is only one example of the political problems that this approach entailed. The 3.5 percent figure was at first a bald political compromise, struck by Ham in 1916 as part of a deal to convince the AAPFC to agree to a bill that would forbid all additional fees. The RSF's detailed research, however, convinced officials such as Nugent that a lower rate would drive legitimate lenders out of the business. The interest ceilings imposed by state law prior to the USLL varied across state and over time, but they were rarely higher than 10 percent per annum for contracts such as small loans.¹⁵

RSF personnel had also concluded that much of the harm done by small loans did not reflect costs per se, but a lack of transparency. Lenders had devised a large and complicated set of devices to conceal the total cost of loans from borrowers. Hence, the underlying logic of the USLL was simple and direct. In return for stating charges clearly and simply, as an interest rate only, lenders could charge an interest rate much higher than that allowed to banks. Privately, Nugent acknowledged that some lending costs were fixed; advertising to make a \$100 loan is not less costly than advertising to make a \$300 loan. Insisting that the rates be identical for these two loans meant either that the larger loans subsidized the smaller ones or that other lenders could skim off the borrowers seeking larger loans. For many years, the RSF opposed any system that would recognize this problem either by allowing lenders to charge a fee on a smaller loan or by charging a higher interest rate on a smaller loan. Only in 1934 did it appear to show any flexibility on this point. In a letter to Edgar F. Fowler of the American Association of Personal Finance Companies, Nugent noted that the RSF was proposing a substantial change in the USLL, this time allowing higher rates for smaller loans. Until then, the RSF had always viewed transparency as so important that it would sacrifice other goals, and put itself in politically awkward positions, to preserve it.¹⁶

15 Robinson and Nugent, *Regulation*, 114–116, 68–69 (Table 4).

16 The USLL required that loans be paid back in equal portions of the principle, with interest charged only on the current balance. Consider a loan of \$100 repaid in twelve installments. Each month the borrower would repay \$8.33 of the principle but a declining amount of interest. The average outstanding balance on the loan would be \$54.17, and the borrower would pay a total of \$22.75 in interest, yielding the 42% APR. The “deal” on the 3.5% rate is discussed in Robinson and Nugent, *Regulation*, 114–116. Current bank and contract rates appear in *ibid.*, Table 4. For graduated rates, 27/208, RAC, contains a letter from Nugent to Fowler, De-

Once it adopted this approach, the RSF defended it against all comers. In some cases, the RSF opposed lenders, like the so-called Morris Plan banks, who claimed to be helping poor people but charged fees and used other devices that could be interpreted as efforts to conceal the true cost of their loans. The Morris Plan model required each borrower to have a co-signer, which was common banking practice. More importantly, Morris Plan borrowers made conventional interest payments on their loans as well as what amounted to a non-interest-bearing deposit. The RSF initially viewed the Morris Plan, which was successful for a time, as anathema because the loan's total cost was more than 15 percent per annum, although the Plan publicly claimed it was lending at 6 percent. Nugent freely acknowledged that 15 percent was still cheaper than most similar loans, but he objected strenuously to what he saw as the Morris Plan's refusal to be frank about its charges.¹⁷

The USLL's high maximum rate created political problems. Interest rates of 3.5 percent per month sounded bizarre to many at the time, leaving the RSF vulnerable to the charge that it was a front for high-rate lenders. In several state legislatures, the RSF was asked to explain its connection to lenders' organizations: Was it

ember 21, 1934: "Our studies of the costs of lending are now sufficiently complete for us to draw relatively accurate conclusions as to the desirability of a graduated rate. This evidence is supplemented by the experience of several states which now have graduated rates." The RSF research program grew more general and elaborate. Nugent convinced several large chain lenders, most notably Household Finance, to share internal data and later to provide additional data in a format suggested by him. He also collected the reports of most state authorities responsible for consumer lending. Worksheets in the Library of Congress files suggest that his main concern was to estimate the costs of making small loans.

17 David Mushinski and Ronnie J. Phillipps, "The Role of Morris Plan Lending Institutions in Expanding Consumer Microcredit in the United States," in Glenn Yago, James R. Barth, and Betsey Zeidman (eds.), *Entrepreneurship in Emerging Domestic Markets: Barriers and Innovation* (New York, 2007). The RSF always viewed the Morris Plan's approach as a subterfuge intended to disguise the cost of credit. In 1915, for example, H. M. Barksdale of Wilmington, Del., wrote to the RSF asking its opinion of the Morris Plan. Glenn wrote back, "I am convinced that Morris, himself, is either a crook or crazy" (letters dated October 26 and October 27, 1915, 26/198, RAC). In 1917, Robert W. de Forest, the RSF's vice president, wrote at the direction of the trustees to Clark Williams, then president of the Industrial Finance Corporation, which was the main Morris Plan bank, objecting to Williams' public claims that the Morris Plan was similar to the Provident Loan Society: "A Morris Plan bank loans at a rate of interest which can only be determined by calculation and which, in our opinion, is not easily understood by borrowers or co-makers. It is certainly not understood by many newspapers who call it lending at six per cent" (letter dated May 28, 1917; reply dated March 27, 1917, 25/191, RAC).

simply an industry group? The Kentucky State Federation of Labor was not alone in claiming that the RSF was really a small-loan lender organization. Others maintained that the RSF was simply continuing the activities of Russell Sage, who had died long before the RSF was established.¹⁸

Loans made under the USLL were significant, but they never represented a large proportion of total U.S. consumer credit. Nugent estimated the volume of outstanding small-loan debt at the end of 1932 under the USLL—from the admittedly imperfect reports available to him—as \$258 million, or about 860,000 loans at the \$300 maximum at a time when the United States had 124.8 million people. The \$258 million outstanding under the USLL pales in comparison to the total short-term household debt of \$14.4 billion in that year; short-term cash loans alone were \$1.7 billion. The USLL had made only a small dent in this aspect of consumer lending.¹⁹

PASSAGE OF THE LAW Why did some states pass the USLL early, others late, and still others not at all? To understand the law's acceptance, we estimate an econometric model of time to passage, using the forty-eight then-extant states and the period 1906 to 1930 as our observations. We begin with the first year that such a measure was introduced in a state legislature, and we end with 1930 because the Great Depression significantly altered the political climate in which the USLL was discussed. Once the Depression took hold, the RSF spent much of its energy defending earlier success. In any case, the political context for any financial reform shifted dramatically with widespread banking problems and declines in the price level.²⁰

18 Mercer G. Johnston's colorful testimony about the USLL included the statement, "An institution is the lengthened shadow of a man, and the Russell Sage Foundation is the lengthened shadow of Russell Sage, popularly described at the time of his death as 'the village skinflint writ large . . . Since [1916] the foundation has been the militant propaganda agency and lobby for a loan shark trust'" (House of Representatives, "Credit Unions and Small Loans," Hearings before the Committee on the District of Columbia, Seventy-First Congress [Washington, D.C., 1930], 111).

19 Nugent, "Small Loan Debt in the United States," *Journal of Business*, VII (1934), 1–21, Table III (16).

20 Nugent, "Three Experiments with Small Loan Interest Rates," *Harvard Business Review*, XII (1936), 35–46, discusses the effect of these maximum interest-rate reductions. They led, as one would expect, to large reductions in the number of licensed lenders in operation, and to a concomitant reduction in lending.

Drawing on a variety of sources, we construct time-varying measures of state characteristics to test whether they played a role in the law's passage. Our model is a reduced form that reflects the balance of two forces. To the extent that credit in a particular state was viewed as a problem, the RSF would have been able to gather allies and convince the state to pass the USLL. But the rampant problematical lending also implies that certain interests were willing to expend effort and money opposing the USLL; that is, we cannot say, a priori, which way a powerful pre-USLL lending market happened to affect the law's passage.²¹

From our earlier discussion, we can divide the characteristics of states that might explain passage into three groupings. The first is *social and economic*: Because the RSF thought that high-rate lenders were most prevalent in urban areas, they targeted, in particular, the poor and industrial workers whose firms could garnish wages. African Americans, immigrants, and others reluctant to seek the protection of the law were also likely candidates, as were the RSF's potential allies, including the large manufacturing firms noted earlier.

The second grouping is *financial*: Judging from the archives, the RSF did not appear to think that financial institutions such as banks played a direct role in favoring or opposing the USLL. But changing legal usury rates directly impinged on their business, and credit unions might have siphoned off some of the support needed to pass the USLL. Finally, the diagnosis at the heart of the USLL was that "financial repression" forced small-loan lending underground by making it impossible for lenders to cover their costs with clear terms. The question is whether "financial repression," as measured by the difference between rates allowed by usury laws on the one hand and banks on the other, affected the USLL's passage.

The third grouping is *political*: As a classic Progressive measure, the USLL might have been most popular in states with that political tradition. Sometimes the RSF archives make clear that the USLL was being used as a pawn in a larger party-political struggle. Did the partisan identity of the governor and legislatures really matter?

21 The working paper version of this article—available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1413905—contains appendixes that provide more information about variable definitions and sources.

Several scholars have pursued a similar agenda, seeking to explain the timing of a state law's passage. Our efforts are most similar to those of Fishback and Kantor's study of the adoption of workmen's compensation laws in the first half of the twentieth century. Some of the variables used herein come directly from that study. The sources for the others are provided in Table 1, which also provides descriptive statistics. Like Fishback and Kantor, we experimented with several classes of econometric models, including limited-dependent variable-panel models, concluding that the best approach is to model passage as a discrete waiting-time process, which is also Fishback and Kantor's preferred method. This approach can be viewed as estimating a binary logit model in which the dependent variable is 1 if the state passed the law in that year. This and other modeling choices that we made are innocuous in the sense that our experimentation with a rich variety of alternatives has yielded the same central results.²²

We restricted ourselves to parsimonious models, because the sample size is so small. In addition, several candidate explanatory

22 Price V. Fishback and Shawn Kantor, "The Adoption of Workers' Compensation in the United States, 1900–1930," *Journal of Law and Economics*, XLI (1998), 305–342; *idem*, *A Prelude to the Welfare State: The Origins of Workers' Compensation* (Chicago, 2000). Other studies that use similar methods include Paul G. Mahoney, "The Origins of the Blue-Sky Laws: A Test of Competing Hypotheses," *Journal of Law and Economics*, XLVI (2003), 229–251, which investigates the passage of state-level securities regulation; Donald J. Smythe, "Transaction Costs, Neighborhood Effects, and the Diffusion of the Uniform Sales Act, 1906–1947," *Review of Law and Economics*, IV (2008), 341–372—available at <http://www.bepress.com/rle/vol4/iss1/art16>. These models go by a variety of names—"hazards model," "event-history analysis," "failure analysis," and "duration analysis"—but carry the same meaning. Lee, "Grouped Mixed Proportional Hazards Models with Social Interactions," working paper, Dept. of Economics (University of Michigan, 2007), provides a more technical exposition of the models discussed in this section. Jongyeon Lee and Yoonseok Lee, "A Grouped Mixed Proportional Hazard Model with Social Interactions: Analysis of Motorcycle Helmet-Use Law," working paper, Dept. of Economics (University of Michigan, 2010), provides a more technical derivation of a similar model. We include every state-year pair in our dataset, although not every state legislature held a session every year. Re-estimating the model only for the years in which a legislature met did not produce significantly different results. Several scholars who have used methods similar to ours (for example, Mahoney, "Origins") exclude state-year pairs in which the legislature did not meet, but we include them because in a few states, the USLL was passed in a special session called for other purposes. In our view, the fact that a state did not have a legislative session means only that it had no pressing business to conduct. The year splines that we use have the effect of combining years with no passage with the previous year, which accommodates Mahoney's concern. Arizona and New Mexico did not become states until 1912. Re-estimating the model without the years prior to their statehood also does not produce appreciably different results.

Table 1 Sources and Descriptive Statistics

VARIABLE	DEFINITION	MEAN (STD. DEV.)	SOURCE
Manufacturing	Ratio of state manufacturing annual earnings to U.S. manufacturing earnings, 1899, 1904, 1909, 1914, 1919, 1921, 1923, 1925, 1927, 1929, 1931, and interpolations in between	.99 (.23)	Interpolation between census years; from Fishback and Kantor
Large firms	Percentage of Value Added in Establishments with More than \$1 million in value added for years 1904, 1909, 1914, 1919, 1929, and 1939 with straight-line interpolations for years in between	.43 (.19)	Interpolation between census years; from Fishback and Kantor
Urban	Percentage of state's residents in cities of more than 2,500 people	.41 (.21)	Interpolation between census years; from Fishback and Kantor
State banks	Average state bank liabilities	1.58 (2.88)	Federal Reserve's All-Bank Statistics

NOTE The Fishback and Kantor source refers to a dataset collected for Price V. Fishback and Shawn Everett Kantor, *A Prelude to the Welfare State: The Origins of Workers' Compensation* (Chicago, 2000)—specifically the `wcdata.xls` file, which is located in the “Workers' Compensation Project Data” section at http://www.u.arizona.edu/~fishback/Published_Research_Datasets.html.

variables were strongly co-linear, making it possible to include only one in our models. Dating the passage of the USLL is less simple than it sounds. The RSF was clear about when a state had passed “its” law but not so clear about what it viewed as acceptable alternatives (even though it was a “uniform law,” most legislatures made at least small changes to the RSF's version). We located two distinct accounts of which states passed the law at what date. Fortunately, re-estimating our main specifications using the most different, sensible set of dates does not alter the general character of

our findings. Appendix A in the working-paper version explains the discrepancies about dates and how we resolved them.²³

We begin with the simplest specifications. Table 2 reports models with four main covariates—manufacturing, large firms, urbanization, and banks. To account for the time path of the law’s passage, we use a series of exclusive and exhaustive splines. To ease interpretation of the splines, we estimate our models without constant terms. Columns (1) and (2) in Table 2 report two different models; columns (3) and (4) report marginal effects, evaluated at the means of the right-hand-side variables. Wald tests reject the exclusion of the splines (chi-square = 52.6; $p < .001$).

The models reported in Table 2 conform to some expectations but also contain surprises. The RSF reserved its discussion and research for urban areas, where most observers thought people to be most at risk from abusive lending. Thus, the importance of urbanization confirms our expectation. RSF staff also would not have been surprised at the effect of large firms, for the reason noted above. The negative effect on manufacturing wages points to an interesting feature of economic activity at the time. Since we are controlling for large firms, the manufacturing variable picks out states like Utah, Colorado, or Wyoming, where earnings in the manufacturing sector were high, but the number of large firms was small. The RSF’s archives detailing discussions in Colorado suggest that its efforts there were met with a combination of hostility to “eastern” ideas and the incorrect claim that the 3.5 percent interest rate would apply to bank loans. The character of this reaction is similar to the hostility from agricultural interests that arose in Nebraska and other states where farmers dependent on bank credit feared that the USLL would raise their borrowing costs. We experimented with alternative specifications that emphasized population density or the importance of farming to the state economy, but none of them entered the model or had much impact on the manufacturing wage variable.

Our banking measure is the total liabilities of state-chartered banks. Virtually any measure of state-chartered banks produces similar results. No measure of *nationally* chartered banks has a significant influence in the model. We have no direct evidence of

23 The complicated cases described in Appendix A in the working-paper version all turn on whether some earlier bill resembled the USLL enough for the RSF to accept it as a substitute.

Table 2 Basic Models for the usll's Passage

	(1)	(2)	(3)	(4)
Man. earnings	-7.137* (-6.590)	-2.489* (-1.721)	-0.0711* (-3.722)	-0.0185* (-1.821)
Large firms	1.756* (1.572)	3.009 (1.198)	0.0175* (1.722)	0.0223 (1.215)
Urbanization	6.124* (2.780)	6.533* (2.832)	0.0610* (3.065)	0.0485* (2.322)
Banks	-0.293 (-1.220)	-0.317 (-1.644)	-0.00292 (-1.375)	-0.00235* (-1.731)
1906-11		-7.005 (-4.693)		-0.0592 (-2.126)
1912-13		-5.144 (-3.721)		-0.0123 (-2.492)
1914		-5.142 (-3.300)		-0.00946 (-2.389)
1915		-5.158 (-3.184)		-0.00942 (-2.430)
1916-17		-4.261 (-3.019)		-0.0108 (-2.352)
1918		-4.384 (-2.469)		-0.00878 (-2.428)
1919		-4.405 (-2.916)		-0.00871 (-2.473)
1920		-4.931 (-2.230)		-0.00884 (-2.436)
1921		-4.190 (-2.621)		-0.00850 (-2.439)
1922-23		-5.551 (-3.488)		-0.0107 (-2.518)
1924-25		-4.380 (-2.557)		-0.00971 (-2.434)
1926-27		-5.469 (-3.328)		-0.0101 (-2.422)
1928-30		-5.716 (-3.003)		-0.0117 (-2.415)
log lik	-104.0	-88.11	-104.0	-88.11

NOTES There are 950 observations. See Table 1 for variable definitions and descriptive statistics; *t*-statistics in parentheses; * indicates that the absolute value of the *t*-statistic exceeds 1.645, which amounts to rejecting the null that the coefficient is 0 at a 90% level of confidence. We do not star the time splines. Columns (1) and (2) report logit coefficients, and columns (3) and (4) marginal effects.

bank involvement in lobbying against, or for, the USLL, and the distinction between state and national banks is slightly surprising. A hint as to the mechanism at work comes from a variable that we could not leave in the model. The USLL was motivated by the idea that problems in the small-loan market reflected unrealistic usury caps. We defined two different “financial repression” measures, both as the difference between the average interest charged by state-chartered banks and the maximum rate allowed under state law. The financial repression measures are highly collinear with our banking variable, entering the model with a positive sign: The closer was the actual rate to its maximum, the more likely was the USLL’s passage. The repression variables work precisely as the RSF would have predicted.²⁴

Two channels for bank concern seem likely, although given the silence of the archival record, they are unavoidably speculative. Since the minimum capitalization for federal banks was larger than that for state-chartered banks during this period, state banks were usually smaller and more common in relatively remote areas. Our state-bank variable may show that in such areas, state banks played an indirect role in the lending that the USLL intended to displace (perhaps by financing those in the high-rate loan business). State banks might also have feared the alternative investment possibility inherent in the USLL. More likely, however, they took a hard line on any tampering with usury laws that gave them an advantage in the competition for household deposits. Mahoney’s results for the adoption of state-level securities regulations (“Blue-Sky Laws”) in the period at hand suggest a complementary interpretation: State banks effectively lobbied to prevent regulatory provisions enabling securities salesmen to compete for savings that would otherwise end up as bank deposits. They might have used the same strategy against the USLL.²⁵

Equally interesting for the models reported in Table 2 are the variables that turned out not to have any real influence on the USLL’s passage. Simple regional dummies had no influence when used as regressors (though regional effects arise in the spatial correlation, as we discuss below). We experimented with additional de-

24 Most states had two different maximum rates, one for banks and another for private contracts.

25 Mahoney, “Blue Sky Laws.” Hugh Rockoff, “Prodigals and Projectors: An Economic History of Usury Laws in the United States from Colonial Times to 1900,” NBER Working paper No. 9742 (2003), is the source for the usury caps.

mographic controls, such as the proportion of a state's population that was foreign-born, African-American, or illiterate, as well as measures of the state's party-political affiliation. In our models, it does not matter whether the governor or legislature was Republican or Democratic. We also checked whether states with a strong Progressive tradition favored the USLL. They did not, at least judging by the proxies that we employed. We were not sure about the credit-union effect—conceivably positive if credit unions and the USLL were addressing the same problem but negative if friction occurred between credit-union leaders and the RSF. In any event, this measure had no appreciable impact in our models.²⁶

Contemporary business conditions could also have affected the chance of passage. Legislators in a state experiencing a downturn might have come under pressure to “do something” for those affected by high-rate lending, or, conversely, they might have been reluctant to adopt such radical legislation as the USLL while their constituents faced economic distress. We experimented with two proxies for current economic circumstances. The first comes from the annual, state-level measures of business failures collected by Dun's and printed in the annual *Statistical Abstract of the United States*. The second derives from changes in the number of banking offices as implied by the figures reported in the Federal Reserve's *All-Bank Statistics*. In both cases, we used up to three lags, to allow political decisions to respond slowly. Since neither proxy played a significant role in our regressions, we need not report them herein.²⁷

A final possible influence was religion. Even though the archival record gives no indication that either clergy or institutional churches were involved in discussions on either side of the issue, we investigated whether the prevalence of organized church members in general or the relative weight of specific denomina-

26 The “Progressive index,” which derives from Fishback and Kantor, *Prelude*, 111, consists of the number of measures that a state passed that matches a list of laws favored by Progressives. Our variable was the number of credit unions in operation in a state-year. This data was reported by the Bureau of Labor Statistics, which cautioned about the imperfect reporting. Internal memoranda at the RSF reveal that in at least one instance, the credit-union people blamed the USLL for generating forces that blocked passage of enabling laws for credit unions.

27 The Dun's data are described in Appendix B to the working-paper version. We used two distinct sets of proxies from this source—the proportion of all businesses that failed in a given year and the liabilities of all failed businesses normalized by the state's population. The business-failure proxy has one effect—reducing the impact of the state-banking variable. This multicollinearity seems natural; bank liabilities are at some level endogenous to current economic conditions.

tions had any influence on the USLL's passage. Given that the U.S. census does not ask questions about religious profession, the available information on the subject is indirect and open to considerable error. In any case, we could not find any role for religion in the USLL's passage.²⁸

Spatial Correlation The geographical pattern of the USLL's passage invites explanations that stress the effect of one state's actions on its neighbors. Sometimes a legislative campaign in one state can draw attention to an issue in another. In other cases, spillovers from media outlets (such as newspapers and the radio) allow the residents of one state to follow political debates in another state. More subtly, the RSF seemed to believe that once a few states had passed the USLL, others would want to pass it to show that they, too, were progressive. Occasionally, when one state adopted the USLL, its neighbors saw an influx of high-rate lenders operating across state lines. To investigate the importance of such effects, Table 3 takes specification (2) from Table 2 and adds to this basic model several measures of spatial correlation. We reproduce the baseline model as specification (1) in Table 3. Our strategy again was to experiment with a wide variety of possible channels of influence. This model augments the regressors in the standard logit model to include a term $\rho W_i Y_{t-i}$, where ρ is our spatial correlation coefficient, W_i is the i -th row of a (48×48) row-normalized weighting matrix W , and Y_i is a vector of 0–1 variables that are 1 if state i has passed the USLL by year t . The W matrix itself is time-varying in some of our specifications. In this approach, ρ is estimated as one would estimate any other coefficient. The W matrix (whose elements are the inverse of the distance between the states) can be thought of as assigning the distance dimension to the relationship between states.²⁹

28 These data have been used in a number of recent studies, but what they measure is not clear. Given our emphasis on change over time, the time-series dimension of the data are especially important. Taken at face value, the data imply implausibly large fluctuations in the number of congregants of some religions in some states. These fluctuations seem more consistent with serious errors in data collection than with actual social changes. Rodney Stark, "The Reliability of Historical United States Census Data on Religion," *Sociological Analysis*, LIII (1992), 91–95, offers a different but unpersuasive view not based on examining putative changes in religious affiliation over time. He cites the underlying sources.

29 We cannot say how many newspaper and radio markets crossed state lines, but examples are evident. As early as the first years of the twentieth century, the *New York Times* circulated in New Jersey and well beyond (Elmer J. Davis, *History of the New York Times 1851–1921* [New York, 1921]). In the 1920s, radio stations located on state lines easily reached several states, and a few big-city stations had transmitters that reached hundreds of miles, across several states.

Table 3 Spatial Correlation

	(1)	(2)	(3)	(4)	(5)
Man. earnings	-2.489* (-1.721)	-2.415* (-1.709)	-2.023 (-1.390)	-0.791 (-0.610)	-1.888 (-1.192)
Large firms	3.009* (1.198)	3.617* (1.247)	3.324 (1.306)	3.884* (1.645)	2.612 (1.045)
Urbanization	6.533* (2.832)	6.604* (2.909)	7.098* (3.013)	7.657* (3.018)	7.256* (3.071)
Banks	-0.317 (-1.644)	-0.280 (-1.424)	-0.296 (-1.433)	-0.335* (-1.669)	-0.338* (-1.732)
1906-11	-7.005 (-4.693)	-7.466 (-5.241)	-8.043 (-5.417)	-9.805 (-5.344)	-7.890 (-4.499)
1912-13	-5.144 (-3.721)	-5.496 (-3.932)	-6.112 (-4.409)	-7.696 (-4.360)	-5.912 (-3.578)
1914	-5.142 (-3.300)	-5.462 (-3.699)	-6.048 (-3.995)	-7.333 (-4.406)	-5.825 (-3.383)
1915	-5.158 (-3.184)	-5.461 (-3.348)	-5.984 (-3.752)	-7.185 (-4.208)	-5.717 (-3.233)
1916-17	-4.261 (-3.019)	-4.583 (-3.282)	-4.984 (-3.690)	-6.139 (-4.257)	-4.606 (-3.027)
1918	-4.384 (-2.469)	-4.673 (-2.646)	-4.611 (-2.865)	-5.625 (-3.856)	-4.239 (-2.323)
1919	-4.405 (-2.916)	-4.699 (-3.127)	-4.439 (-3.206)	-5.363 (-4.310)	-4.218 (-2.740)
1920	-4.931 (-2.230)	-5.135 (-2.366)	-4.982 (-2.385)	-5.682 (-3.133)	-4.650 (-2.036)
1921	-4.190 (-2.621)	-4.347 (-2.687)	-4.207 (-2.874)	-4.746 (-3.534)	-3.912 (-2.363)
1922-23	-5.551 (-3.488)	-5.698 (-3.516)	-5.484 (-3.598)	-5.799 (-4.444)	-4.998 (-3.013)
1924-25	-4.380 (-2.557)	-4.550 (-2.549)	-4.327 (-2.760)	-4.544 (-3.377)	-3.687 (-2.053)
1926-27	-5.469 (-3.328)	-5.627 (-3.297)	-5.136 (-3.303)	-5.008 (-3.277)	-4.629 (-2.614)
1928-30	-5.716 (-3.003)	-5.858 (-3.053)	-5.348 (-2.929)	-5.023 (-2.651)	-4.729 (-2.376)
W matrix: border		-0.846 (-0.776)			
W matrix: population			-2.761* (-2.154)		

Table 3. (Continued)

W matrix: northern				-6.639*	
				(-1.722)	
W matrix: pro- gressive index					-3.263*
					(-1.648)
log lik	-88.11	-87.78	-85.15	-86.63	-86.49

NOTE There are 950 observations. See Table 1 for variable definitions and descriptive statistics; * indicates the absolute value of the t -statistic exceeds 1.645, which amounts to rejecting the null that the coefficient is 0 at a 90% level of confidence. We do not star the time splines.

Many studies ask whether two states that share a common border influence one another. This model, reported in Table 3, specification (2), does not seem to work for the USLL, apparently ruling out influences that operate directly, such as spillovers in newspaper markets or lenders operating across state borders. Our next specifications deal with such indirect effects as learning or political influence. Did the probability of a state passing the USLL depend on states of a similar population size passing it? This approach, reported as specification (3), suggests a statistically significant but negative effect (all of our spatial correlations are negative; see below). Specification (4) shows that if only northern states are allowed to affect northern states, and only southern states to affect southern states, the cross-state influence is considerable, again negative. This result suggests that northern states cared what other northern states did, but it ignores the decisions of southern states, and vice-versa. Finally, specification (5) uses the Fishback-Kantor progressive-laws index to devise a measure of a state's "Progressive" culture. States might be most influenced by the USLL's passage in other states that have a similar Progressive (or "un-Progressive") political culture. These spatial correlations are statistically significant and fairly large; the marginal effect for specification (4) is $-.04$.³⁰

Clifford J. Doerksen, *American Babel: Rogue Radio Broadcasters of the Jazz Age* (Philadelphia, 2005), 79, mentioned a resident of Schaller, Iowa, complaining about radio stations in Chicago intruding on the market of smaller, local stations. A transmitter capable of reaching Schaller, which is more than 400 miles from Chicago, had access to at least eight states in addition to Illinois. Fishback and Kantor, "Adoption," noted a similar issue with regard to workman's-compensation laws, adopting an econometric test of "contagion effects" that is similar to one approach discussed below. This issue is a major focus of Smyth, "Transactions Costs."

³⁰ Fishback and Kantor, "Adoption," specify the spillover effects in a similar manner and also find their role to be slight.

Several channels suggest why the cross-state effects for the USLL would be negative. The RSF clearly thought that its political opponents grew in strength over time. Opponents in one state might have mobilized their efforts in response to the USLL's passage in similar states. Our results imply, for example, that potential opponents were more alarmed by the USLL's passage in a state of similar size to their own. The specification that only southern states influenced southern states still holds true. Thus, opponents in Mississippi did not worry when Illinois passed the USLL in 1917 but grew concerned when Georgia did the same in 1920.³¹

Table 3 shows that some of our regressors are sensitive to the inclusion of the spatial-correlation terms. The bank variable is only marginally significant in any case, and in models (2) and (3) not at all, at conventional significance levels. The manufacturing variable is even more sensitive to the specification of W ; in (4), which uses the north/south divide to construct W , the manufacturing effect nearly disappears. This sensitivity of the regressors to W illustrates a point not always appreciated in the literature. We are interested in ρ for its own sake, for what it tells us about the process of passing the USLL. But leaving it out introduces a form of omitted-variables bias. This observation cuts two ways. As Table 3 implies, we can overemphasize the importance of a given factor if we fail to account for spatial correlation. Yet, the many studies that report strong spatial correlations might be finding the opposite problem—that, under the right conditions, the spatial-correlation term might itself be biased through the exclusion of some important regressor.³²

31 We experimented with other specifications of W , including weighted averages of population and sharing a border. The results reported in Table 3 convey the flavor of alternative results.

32 Yoonseok Lee, "Variable Omission and Pseudo-Spatial Dependence," working paper, Dept. of Economics (University of Michigan, 2010), makes this point formally. We also grappled with the problem of unobserved heterogeneity using two different approaches. The first, a version of the approach suggested by James J. Heckman and Burton Singer, "A Method for Minimizing the Impact of Distributional Assumptions in Econometric Models for Duration Data," *Econometrica*, LII (1984), 271–320, yields results similar to those reported herein, with the exception that neither the bank nor the urbanization variables retain their statistical significance. The second approach, assuming that unobserved heterogeneity follows a gamma distribution, also yielded results in which the slopes remain materially unchanged. Interestingly, the models with unobserved heterogeneity corrections imply that there is no spatial correlation at all. This finding reinforces the comment made earlier. Unobserved heterogeneity's effects in a waiting-time model are much like omitted-variables bias. The results for unobserved heterogeneity are presented in the discussion-paper version of this article.

Lobbying: The RSF's Impact on State Legislatures None of the models discussed herein accounts for the RSF's own efforts. Using the archival files, we can easily document that in most cases where the USLL was in active contention, members of the RSF's staff helped to coordinate the lobbying efforts in favor of the bill. Often these efforts took the form of letters, telephone calls (still expensive in those days), or telegrams. RSF staff also traveled to meet with their political allies and to discuss the measure with state legislators.

We can document the number of calls and visits in connection with the USLL for thirty-four states. We can also document calls and visits that had to do with other matters but were archived for some reason with the RSF's material on credit matters (in other words, other RSF departments also had contact with state legislators, but the contacts that we documented had something to do with credit in general, if not with the USLL). Of the states that passed the USLL, 55 percent received at least one visit from an RSF staff member in the year when the measure passed. About 30 percent received at least one visit in the year before the law passed. The RSF's efforts did not always lead to immediate success. About one-half of the states visited did not pass the USLL for at least two years.

Why not introduce measures of the RSF's activities as regressors in the models above? They are most certainly endogenous variables, for which we know of no useful instruments. We would have had to rely on experimental methods for working within the discrete-hazard framework. The strategy discussions memorialized in the archives suggest a strong interest in the cost/benefit ratio: The RSF sent staff to help only when it thought that the law had a good chance of passing and its efforts would be worthwhile. Given this motivation, we could test only the RSF's ability to determine which states were most likely to be amenable to its persuasion—something that we already know.

The RSF devoted considerable resources on behalf of the USLL for multiple decades. It could not deliver votes or other forms of political muscle, nor spend tens of millions of dollars, but it could deliver expert knowledge and a legal template. Key elements in the RSF's assessments of the USLL's prospects were confirmed by the bill's relatively quick passage in urbanized states with large firms.

Our results suggest two limits to what the RSF was able to do, however. The econometric models suggest that a state's receptivity to the USLL reflected "deep" characteristics of its economy and social organization. The model implies that the only appreciable influences on a state's likelihood of passing the USLL were characteristics that reflect long-term historical development. The RSF could not plausibly change a state's urbanization rate, for example; nor could it hope to wait until its state banks weakened. In addition, the spillover logic of a uniform-law approach finds no support whatsoever in our analysis. The spillovers that we do find are negative.

The USLL met with mixed success. Not all states passed it, and some of those that passed it at a later date modified it in ways that deviated from the approach embedded in the drafts promulgated by the RSF. The RSF itself eventually lost interest in the matter; by the outbreak of World War II, it had effectively abandoned the field. By that point, credit unions had become a firmly established, though small, part of the American financial system. Moreover, commercial banks had begun to make personal loans to individual households. Quantitatively more important in the small-loan market were the lenders that emerged because of the opportunities offered by the USLL. The large chain lenders (of which Household Finance is the most famous) demonstrated their ability to raise capital in many places, including the stock markets, and smaller lenders operated using other financing sources. Their industry groups continued to lobby state legislatures, albeit without the RSF's support. Hence, the events and precedents reported herein created a lasting institutional presence comprised of lending firms and the industry groups that represent them.

The more enduring historical legacy of the RSF's pioneering efforts is the USLL's approach: Rather than simply suppressing loans of this type, the original federal consumer-credit legislation sought to force lenders to disclose their terms in a clear and easily understood way. Thus, the USLL underlies the spirit, and sometimes the letter, of modern consumer-credit legislation. Subsequent experience, however, has shown how difficult it is to regulate this market. Many of the companies that make small loans today charge not only interest but also the kind of fees that Nugent and others at the RSF viewed as devious and unconscionable and that the USLL was intended to eliminate.