The Passage of the Uniform

Small Loan Law

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Abstract

The Uniform Small Loan Law (USLL) allowed specially-licensed lenders to charge much higher interest rates than those allowed by most state usury laws. In return, small-loan brokers had to adhere to strict standards of transparency. The USLL was the Russell Sage Foundation's primary device to combat the problem of high-rate lending to poor people in the first half of the twentieth century. The Foundation drafted successive versions of the law and fought for its passage in state legislatures. About two-thirds of the states had passed the USLL when the Foundation ended this effort in the 1940s. This paper describes the USLL and reports econometric models of which states passed the USLL and when. We find that the demographic and political factors that occupied much of the Foundation's own discussion played little role. Measures of state economic structure as well as the presence of credit unions and banks, on the other hand, are powerful correlates of the state's passage. There is no evidence of spatial dependence across states in the law's passage.

For its first 40 years the Russell Sage Foundation (RSF) was heavily involved in efforts to reform the conditions under which poor Americans obtained credit. Through its lobbying, publications, and other efforts, the Foundation operated as the clearinghouse for information, leader of several reform proposals, and primary interlocutor for lenders and industry groups that sought to improve their industry's image. This paper focuses on one particular initiative, the Uniform Small Loan Law (USLL). The USLL formed the heart of the Foundation's early efforts to improve credit conditions for poor people. The USLL reflected two central ideas. Supporters thought that making small loans was an inherently expensive business, and that the only way to encourage legitimate lending was to let capital earn a realistic profit. The law also reflected a perception that borrowers were hurt less by high interest rates than by other features of "loan-sharking," such as lack of transparency.

This paper focuses on the USLL's passage: which states passed the law and when. Section 1 provides background on the problem of credit for poor people, as well as the RSF's views of the problem. Section 2 focuses on the law itself. Section 3 describes the data and methods we employ, and Section 4 discusses our results.

1. Credit for the Poor and the Foundation's activities

Starting in the 1890s, U.S. reformers came to view credit as a serious problem in causing or exacerbating poverty (Calder 1999: 112-123). In their eyes, borrowers usually sought small loans only because of financial necessity: unexpected medical expenses or loss of income due to unemployment. The dire circumstances for such emergency borrowing drove small debtors into the hands of usurers, loansharks, and other unscrupulous lenders.

The Foundation was established in April of 1907 and credit for poor people remained a major focus until World War II. The first approach it tried was to publicize the problem (via a "crusade") and warn borrowers about the dangers they faced. But mostly the RSF tried to cultivate new sources of credit that could drive out the "loan sharks." This included Remedial Loan Societies, charitable lenders that extended credit to poor people at much lower rates than those charged by for-profit

lenders. RSF provided financial and organizational support to a number of remedial loan societies, and to their national organization.

RSF also played a key role in the early U.S. credit-union movement, but the Foundation's ardor for credit unions cooled by the 1920s. One reason was the intellectual understanding noted above.[1] Institutional and personal conflicts were also important. Edward Filene's Twentieth Century Fund staked out credit unions as its policy turf, and while the Fund tried several times to work with the RSF, the relationship remained awkward. The personal problems stemmed from repeated conflict between Roy Bergengren, who was Filene's man for the credit-union groups, and various figures at the Foundation.

The RSF also tried to promote consumer lending by commercial banks, again seeking market competition that might reduce costs to borrowers. Commercial banks were late entrants into this field, in part because of legal restrictions on the lending activities of national banks. RSF assisted several New York banks in setting up these new loan departments.[2] It also considered various legislative measures, although these ran aground of the question of whether state laws legalizing personal loans applied to federally-chartered banks. In general and despite RSF efforts, commercial banks were slow to make small loans to individuals (RAC 28/216, p.7).

2. The Uniform Small Loan Law

Most of the Foundation's efforts went into the creation and promulgation of a uniform law to cover small-loans. Support for the USLL involved two tasks: writing (with other interested parties) a model law, and then encouraging its promulgation and passage. This "uniform law strategy" was relatively new to American politics.

In the 1880s, the American Bar Association (ABA) devised a long-term plan to standardize state laws. Legal variability across states was an ongoing problem. National legislation to deal with various social and economic problems was simply

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[1] The conceptual underpinnings of the credit-union and USLL approaches are quite different. Credit unions are non-profits that distribute all surplus to members. The entire point of the Uniform Small Loan Laws was to attract private capital into this type of lending with the promise of profits. Credit unions experienced little of the legislative opposition that the Uniform Small Loan law encountered.

[2] One bank that set up a new loan department was the First National City Bank of New York, whose president, Charles Norton, joined the RSF board of trustees in 1918.

not an option because of how the U.S. constitution allocated powers between state and national government. The uniform law strategy seemed to offer a solution: promulgating uniform laws at the state level ensured constitutionality and defused the problem of multiple jurisdictions.

RSF staff believed that a decision in one state could establish (political) precedent in other states (LC 4, "Anti-Loan Shark Committee" folder). One of the prime movers behind uniform laws was the National Conference of Commissioners on Uniform State Laws (NCCUSL). This group emerged from the ABA in the late 1880s and was later supported by the American Law Institute (Grant 1938, p.1086). Together, they promoted model laws, eventually including the Uniform Commercial Code (Frank 1998, White 1997). The first law proposed by the NCCUSL was the Uniform Negotiable Instruments Act of 1896, adopted in thirty-eight states and territories by 1910 (Lapp 1910). This was followed by a uniform warehouse receipts act, uniform sales act, and so on (Guild 1920). RSF correspondence suggests that the foundation tried to coordinate with the NCCUSL on laws pertaining to credit.[3] As a commercial law serving a social purpose, the USLL was something of a hybrid.

One feature of the uniform-law strategy seems odd for the USLL. As Smythe (2005) emphasizes for the Uniform Sales Act, there are issues where legal differences across states impose higher transactions costs. A firm might prefer that all the states in which it does business have identical laws to reduce legal uncertainty and the costs of inter-state sales. No such strong rationale applies for the USLL. Some of the larger chain lenders that operated under the USLL might well have preferred that the small-loan law in each state be similar. But they rarely lent across state lines.

RSF and the USLL

At first, the RSF extended its "crusades" approach and pushed state authorities to enforce existing laws. A more ambitious strategy entailed pushing particular legislation. Starting in 1910, Ham was involved with state efforts to regulate the small loan business. By 1913 Ham, working with the National Federation's Committee on

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[3] One letter of 17 November, 1919, was sent to a J. Hansell Merrill, appointed by the NCCUSL to consider anti-loan shark laws. See LC 4, "Anti-Loan Shark Committee" folder

Legislation, had determined eight key features that state laws should contain. All successive drafts of the USLL negotiated over the next decades reflected these ideas. They included: (1) Licenses for USLL lenders; (2) Bonds to ensure compliance; (3) A maximum interest rate higher than that allowed for banks (3.5% per month), coupled with a prohibition on ancillary fees; (4) Enforcement by public officials; (5) Penalties for violation; (6) Notice to employer and to wife in the case of assignment of wages; (7) Records that can be inspected by supervision officer; (8) Borrowers to receive memorandum of transaction along with relevant sections of state law.

The USLL defined a small loan as $300 or less (average annual earnings of a non-farm worker were $1,434 in 1925). The first incarnation of the USLL was New Jersey's Egan Act, passed in 1914.[4] Ham's role in passage of the Egan Act went well beyond that of technical advisor. He drafted the legislation and organized support at each stage. This pattern continued, with revisions to the Uniform Law and efforts to pass it in other states. Between 1911 and 1915, six states including New Jersey passed versions of the USLL. As opposition formed, the law passed on close votes in six more states in 1917, but failed in California. The Foundation mustered a considerable lobbying effort. By 1929, RSF staff had visited more than thirty states to urge adoption of the law (RAC 28/216). When Leon Henderson was hired by RSF in 1925, his first act was to visit states where the USLL was in operation. Through 1929 he organized support for the Act in the states where it was in play, and fought efforts to weaken the law in states that had enacted it (Glenn et al 1947, pp.342-343).

RSF staffers knew the political opposition. In a letter to John Glenn (RSF director), Henderson discusses the situation in Missouri: "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."(RAC 24/187, 27 March 1927 letter). Earlier that month, Henderson wrote from Topeka, Kansas: "The salary buyers were very active but did not make any progress until last week when they seemed to have connected up with some Republican enemies of the Governor, who has been helping

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[4] By 1950, the RSF had helped to draft seven versions of the USLL. See RAC 27/211

us all the time. ... There is no doubt in my mind that a big bundle of money was used against our bill." (RAC 24/187, 7 March 1927 letter).[5] Repeatedly, it was the RSF versus the "loan sharks" and salary lenders that the RSF hoped to drive out of the small loan market.[6]

The RSF sought various allies, including labor unions whose members were hurt when they, as delinquent borrowers, had their wages attached. The strongest alliance, however, was with the "legitimate" small-loan lenders. Over the years, RSF staff consulted with organizations like the AILA, its successor the AAPFC, and with particular firms like Household Finance Corporation (RAC 3/22, p.57). The RSF recognized that to push the loan-sharks out, they would have to push legitimate lenders in: "... once 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" (RAC 24/188, p.1-2).[7] In particular, the RSF worked with the AILA and AAPFC to revise the USLL through its multiple iterations (RAC 27/207). At times, RSF staff worried that the foundation worked a little too closely with so-called "industrial lenders" and risked being perceived as a handmaiden of the industry.

The USLL imposed several conditions on lenders, but as with most regulation the effects were complex. Some lenders opposed the law and evaded it after passage. Others welcomed the law because it made lenders more respectable and made it easier to enforce their loans in court. As Robinson and Nugent pointed out, differences in reactions partly reflected the lender's efficiency. Some could never survive at any capped interest rate. Others would benefit from the USLL:

"...while 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 Department of

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[5] The term salary-buyer refers to a loan sharks technique; to escape usury laws they claimed to be buying future salary payments rather than making a loan.

[6] Other RSF documents refer to opposition from "loan sharks" in Kentucky and Alabama. See LC 5 "Opposition to Consumer Credit Legislation, Particularly That of Loan Sharks" folder. On Kentucky, see also the New York *Times* January 12, 1930, p.61; February 14, 1932, p. E5.

[7] RSF staff noted that: "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" (RAC 24/187)

Remedial Loans was tending upward, the rate which chattel lenders were

willing to accept was coming down. (P.110)

The Logic of the USLL

The core logic of the USLL was unusual for its time, and often put the

Foundation at odds with allies. Bergengren's dismissive characterization of the RSF

as the "42 percent foundation" exemplifies the problem. The central feature of the

USLL, the high maximum interest rate, sounded bizarre, and defending it led to

charges that the Foundation was simply a front for high-rate lenders. In various

studies, the RSF had concluded that the cost of making small loans was so high that

no legitimate lender could earn a profit if restricted by extant usury laws. The ceilings

imposed by these laws varied, but were rarely above 6 percent per annum. The RSF

also concluded that much of the harm done by small loans resulted from the lack of

transparency. Lenders had many ways to conceal the real cost of loans from

borrowers. The core idea of the USLL was that in return for stating charges simply as

an interest rate, the lender could charge a rate much higher than allowed to banks.

Once adopted, this logic was defended tenaciously. In some cases the RSF

opposed lenders who claimed to help poor people, but who concealed the true cost of

their loans. One such lender were the so-called Morris Plan banks. These lenders were

quite successful for a period, charging six percent on co-signed loans to working

people. The RSF initially viewed the Morris Plan as anathema because at first the

Plan used additional charges, and made their loans at a discount, in effect driving the

loan's cost above 15 percent per annum. Nugent freely acknowledged that 15 percent

was still much cheaper than most similar loans, but he objected to the Morris Plan's

non-transparency.

Defending the high rates allowed by the USLL was politically difficult.

Nugent was convinced, based on cost studies, that in most cases a lower rate would

simply drive legitimate lenders out of the business.[8] He also believed that encouraging

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[8] The foundation's first effort in the credit field was to do empirical research, and over time the program grew more elaborate. Nugent convinced several large chain lenders, most notably Household Finance, to share internal data. He also collected the reports of state authorities responsible for consumer lending. Nugent and his assistants used this data for several purposes, but worksheets in the Library of Congress files suggest that he mainly wanted to estimate the costs of making small loans.

entry would foster competition and so squeeze out any excess profits that might occur at the maximum rate. But this put the RSF in the awkward position of defending what seemed like unconscionable usury. In several state legislatures RSF was asked to explain its connection to lender's organizations. In others, the claim was made that the Russell Sage Foundation was simply continuing the activities of its namesake, who died long before the Foundation was established.[9]

What is curious about Nugent's insistence on transparency was that privately he admitted this approach had its downside. Most lending costs are fixed; the cost of lending $100 is not much less than that for lending $300. Insisting that the rates be identical meant either that the larger loans subsidized the smaller, or that there was opportunity for other lenders to skim off the borrowers seeking larger loans. RSF for many years opposed acknowledging this problem by allowing lenders to charge a fee or higher interest rate on smaller loans. Only in 1934 was there any evidence of flexibility on this point. In a letter to the Edgar F. Fowler of the American Association of Personal Finance Companies, Nugent noted that RSF was proposing a change in the USLL to allow for higher rates for smaller loans.[10] Until then the Foundation had always viewed transparency as a primary goal.

Loans made under the USLL were significant, but never loomed large as a proportion of all consumer credit. Nugent (1934) estimated the volume of outstanding small-loan debt from the admittedly imperfect reports available to him: at the end of 1932 total debts outstanding under the USLL were about $258 million, compared to total short-term household debt of $14.4 billion. Short-term cash loans alone were $1.7 billion; the USLL made only a small dent in this aspect of consumer lending.

3. Passage of the law

Why did states pass the USLL when they did? RSF had its own understanding of this process, which we shall see was partly flawed. To understand the law's adoption we estimate a model of time to passage, using the 48 states and the period 1906-1930 as our observations. From a variety of sources, we construct time-varying

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[9] Russell Sage was a notoriously aggressive financier whose widow established the Foundation.
[10] RAC Box 27/Folder 208, letter Nugent to Fowler, 21 December 1934.

measures of state characteristics to test whether they played a role in the law's passage. From our earlier discussion we divide these characteristics into three groups: (1) *Social and economic*: RSF thought that high-rate lenders were most prevalent in urban areas, and that they preyed on poor people and industrial workers whose firms could garnish wages. One might also suspect that African-Americans, immigrants, and others reluctant to use the law would also be targets. Note that the impact of such variables is, a priori, ambiguous; a state with more people at risk might also be one with stronger opposition to the USLL. (2) *Financial*: RSF itself did not, so far as the archives reveal, think that banks played a direct role in favoring or opposing the USLL. But changing legal usury rates directly impinged on their business, so their possible role is worth testing. It is also possible that credit unions siphoned off some of the support for the USLL. Finally, we can ask 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. (3) *Political*: The USLL was a classic Progressive measure, and as such might be more popular in Progressive states. Sometimes the RSF archives make clear that the USLL was being used in a larger party-political struggle, so we ask whether the partisan identify of the governor and legislatures matter. Our discussion has also shown the importance of the RSF's tactical alliances with trade unions and other groups.

We address two further questions. First, what was the RSF's own contribution to this process? Did its efforts actually advance the passage of the USLL? The RSF's activities are of course endogenous, which requires caution as we discuss below. Second, did the passage of the law in one state encourage its passage in others?

Several scholars have also sought to explain the timing of a law's passage. Our efforts are closest to Fishback and Kantor (1998a, 2000), who studied the adoption of workmen's compensation laws. Other similar studies include Mahoney (2003) on the passage of state-level securities regulation, and Smythe's (2005) analysis of the Uniform Sales Act. Fishback and Kantor modeled passage of state-level workmen's-compensation legislation as a function of state-level economic, population, and

political characteristics. Some of their variables we use here. The sources for the others are provided in Table 1, along with descriptive statistics. Like Fishback and Kantor, we experimented with several types of models, including limited-dependent panel models. Here we report a duration (or "event-history") model, which seems to us the most natural way to represent the law's passage.

Dating the passage of the USLL is not so simple. RSF was clear when a state had passed "its" law, but less clear about what it viewed as acceptable alternatives. We located two distinct accounts of when states passed the law, and use both variants in our analysis. Variant one comes from a 1935 publication of the Russell Sage Foundation.[11] Variant 2 reflects internal discussions within the archival record.

Our dataset consists of observations for the 48 states for the period 1906-1930. We decided to model passage as a discrete waiting-time process.[12] This approach is now fairly common, and can be thought of as estimating a binary logit model where the dependent variable is one if the state passed the law in that year. We treat each of the 48 states as "born" without the USLL, and "dying" when they pass the USLL. Some states never passed the USLL but right-truncation poses no problems to this type of model.[13]

We contended with two other issues. First, there is undoubtedly unobserved heterogeneity among the states that affected their chances of passing the law. Unobserved heterogeneity in waiting-time models can produce spurious duration-dependence and can bias coefficient estimates. There is no simple, robust way to deal with the problem but here we adopt a variant of the semi-parametric approach of Heckman and Singer (1984). We treat the states as differing in one, unobserved dimension that is fixed in time. We assume the distribution of this unobserved

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[11] Russell Sage Foundation (1935).

[12] These models go by a variety of names; "hazards model," "event-history analysis," "failure analysis," "duration analysis." Lee (2005) provides a more technical exposition of these models.

[13] The model rests on Efron (1988), which demonstrates that the model is essentially adding covariates to a Kaplan-Meier estimator. We include every state-year pair in our dataset, although some state legislatures did not have a session every year. Some scholars who have used methods similar to ours (for example, Mahoney (2003)) exclude state-year pairs in which the legislature did not meet. We do not follow him because in a few states the USLL was passed in a special session called for other purposes. That is, in our view a state could always have a legislative session, and that fact that it did not means it simply had no pressing business to conduct.

heterogeneity has only two points of support, implicitly defining a state as having a high or low propensity to pass the law. The model estimates a parameter that measures how different the two groups of states are as well as another parameter that implies the relative sizes of the two groups. Thus our estimated parameters tell us the probability that a state has a high (unobserved) propensity to pass the law, as well as the difference that propensity makes. The strengths and limitations of this treatment of our problem are well known. Fortunately, nothing in our results depends strongly on the treatment of unobserved heterogeneity.

We also face a problem that has only recently drawn the attention of researchers: spatial dependence. This issue is a central feature of Smythe's (2005) analysis of the Uniform Sales Act. As he stresses, the reduction of transactions costs the law could achieve mattered most if neighboring states also passed the Act. This kind of logic cannot have much force with the USLL, however. But one can think of other ways in which passage of the USLL in one state would reflect passage in "neighboring" states. A legislative campaign in one state may focus attention in another. In other cases, media spillovers (from newspapers and radio) would mean the citizens of one state could follow the debate in another state. The RSF believed that once some states passed the USLL, others would as well to show their progressive status. And sometimes the USLL's passage in one state directly affected its neighbors; when New Jersey adopted the USLL, for example, Delaware saw an influx of high-rate lenders who continued to operate in New Jersey markets. Our approach to spatial dependence is a variant on the one most commonly used in the literature. We model the probability of passage as a function of both observed state-level variables and a term that takes into account the possible effect of other state's past behavior.

The model

The instantaneous probability (or hazard rate) that a state first passes the USSL in year t is

$$h_i(t \mid v) = h_0(t) \exp(X'_{i,t} \beta + \rho W'_i Y_{t-1}) v_i \tag{1}$$

Where $h_i(.)$ is the probability that a state passes the law, given that it has not yet so (the discrete hazard rate); t is years since 1906; X is the matrix of covariates, with i indexing states, and t indexing years. β is a parameter vector to estimate, and *v* is an "error term" that corresponds to the factor generating the unobserved heterogeneity. The baseline hazard (h_0) does not have to be specified, so long as the implicit proportional-hazards assumption holds. ρ is our spatial correlation coefficient, W*i* is the *i*-th row of a (48x48) row-normalized weighting matrix W, and Y_t is a vector of zero-one variables that are one if state *i* has passed the USLL by year t. The W matrix can be thought of as assigning a distance between states. We experimented with several specifications of the W matrix. In our model, as in most, the matrix W must be *pre*-specified; it cannot be estimated because of the size of our dataset relative to the size of W. The most natural version of W is also the most widely used; element *i,j* of (unnormalized) W is one if state i and state j are neighbors. This makes sense if we think spatial dependence reflects overlapping newspaper markets or direct market effects as high-rate lenders flee one state for its neighbor. But other types of spatial dependence require a different W matrix. States may be more influenced by states that are similar than by states that are near (e.g., Michigan may be more influenced by other manufacturing states than by Indiana). In some specifications, for example, we constructed a W matrix that reflected some measurable state characteristic, such as industrial structure.

The estimates reported for the hazards models here were all estimated with the expectation-maximization (EM) algorithm. Maximum likelihood (ML) is not appropriate in this case because the parameters of the heterogeneity distribution are not guaranteed to lie on the interior of a compact set. Thus our model fails the regularity conditions for ML. The simple logit models we use as our baselines were all estimated by ML.

The right-hand side variables are defined by year, but in some cases are constructed as linear interpolations between two decennial censuses. Table 1 lists all

the variables, their definitions, and sources. Our main problem is the severely limited size of the dataset. We have only 48 cross-sectional observations, and can only use the period 1906-1930. Thus we need a very parsimonious model.

4. Results

Table 2 reports results. Given the very small dataset, we only report specifications with variables that have a significant effect on the probability of the law's passage. We begin with specification 1, a simple binary-logit model. The dependent variable here is one in the year the law passed, and zero otherwise. Once a state passed the USLL, it was dropped from the data. This model is very similar to the ones we prefer – specifications 2 and 3– and form a useful starting point.

Three variables correspond to forces often mentioned by the RSF. More urban states (*perurban*) were more likely to pass the law, as were states with larger manufacturing firms (*largefirms*). Holding other effects constant, states with higher wages in manufacturing (*manwrat*) were *less* likely to pass the law. The significance of these first two variables largely substantiates the RSF's perception that the problem the USLL was intended to solve was worse among poor, urbanized industrial workers with access to informal credit markets. States where the problem was bigger were more likely to adopt the USLL. When wages among the target populations were higher, there was less need for such borrowing and hence less need for the USLL.

Two additional covariates have consistent, strong effects, but were never explicitly mentioned by the Foundation. States with more credit unions (*creditunion*) were more likely to pass the USLL, while states with more state bank liabilities (*statebank*) were less likely to so do. The number of credit unions is difficult to interpret. As we saw, at some level credit unions and the USLL were substitute solutions for the same problem, and the credit-union movement displayed some hostility to the USLL. The credit union variable may be just a striking proxy for a state's political culture; states that were willing to support credit unions were also amenable to the USLL. We intend to pursue this possibility in future work.

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The state bank variable is a surprising and interesting result. Virtually any measure of the size or prevalence of state-chartered banks works the same in our specifications. But no measure of *federally*-chartered banks has any impact on the law's passage. So this effect is peculiar to state banks, and doesn't reflect some overall banker hostility to the USLL. Two interpretations seem possible, although at this point our interpretation is tentative. Given the minimum capitalization for federal banks, state-chartered banks in this period were usually much smaller and more common in remote areas. Our state-bank variable may show that in such areas, state banks either played an indirect role in the lending the USLL intended to drive out (perhaps by financing those in the high-rate loan business), or that state banks were nervous about altering usury laws for fear of generating entry by financial intermediaries capable of competing in small, rural markets. Usury laws, when they impose a binding constraint, create financial repression that can privilege some financial intermediaries by allowing them to obtain capital at below-market rates. State banks might have feared the alternative investment possibility inherent in the USLL; more likely, they took a hard line on anything that might affect the usury laws that gave them an advantage in the competition for household deposits.[14] Mahoney's (2003) results for the adoption of state-level securities regulations ("Blue-Sky Laws") suggests a complementary interpretation. He found that state banks effectively lobbied to prevent regulatory provisions that would enable securities salesmen to compete for deposits (see also Macey and Miller 1991). Something like this may be at work with the USLL. What is curious is that the Russell Sage Foundation files contain almost no references to opposition by bankers!

We fixed one of the points of support for the unobserved heterogeneity treatment at "1" and thus only estimated the location of the other support, and the probability associated with each. We find that something like 6 percent of states had the higher propensity to pass the USLL. We could not estimate the location parameter

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[14] Rockoff (2003) surveys the development of usury laws in the U.S. to 1900.

very precisely, meaning that we cannot reject the null hypothesis of no difference between the two types of states.

Despite considerable effort with a variety of specifications, we were unable to find evidence of spatial dependence in the passage of the USLL: our estimated spatial correlation coefficients were never significantly different from zero (specifications 2 and 3 show, however, that the estimated regression coefficients are sensitive to the inclusion or redefinition of the spatial correlation effects). This is most surprising. We tried two ways to get at this issue. In some specifications the spatial effect is limited to geographic neighbors. (In a variant on this, we also used a W matrix in which all northern states were neighbors of northern states, and all southern states were neighbors of all southern states, as in specification 2). We also experimented with defining neighbors according to some characteristic; for example, states with similar populations, or industrial structure, were viewed as neighbors. We also constructed W matrices out of two different characteristics, for example, states were neighbors if they were both southern and similar populations (specification 3).

None of our efforts found evidence of spatial effects. Models of spatial dependence are still evolving, and a different approach might uncover relationships not seen here. But our best efforts suggest that the Foundation exaggerated the state to state spill-overs. Put differently, the logic that Smythe (2005) identifies for the Uniform Sales Act, which provides strong incentives for states to have the same law as their neighbors, does not apply for small loans. States passed the USLL on their own, and not because of what their neighbors, broadly defined, did.

Dogs that don't bark

Given the size of our dataset we had to be very judicious in including regressors. The specifications reported in Table 2 do not include several variables that we tried, but removed for lack of explanatory power. Note first that regional measures, such as a dummy for Southern states, are encapsulated by the heterogeneity treatment we employ. Other results were admittedly surprising. For example, we experimented with the percentage of a state's population that is foreign-born, or black,

or illiterate. None had a strong effect. This was inconsistent with the RSF view that high-rate lenders preyed on certain populations. Our findings probably reflect the correlation of these variables with variables already included in the model. We also examined whether the partisan affiliation of a state's governor and legislature affected passage. Here, again, our results were negative. We should note that these variables are endogenous, and their interpretation must be colored by that observation. But the lack of partisan effect is consistent with the Foundation's view that the USLL was backed by coalitions of progressive republicans and some democrats.

We were especially concerned that the credit union variable might be a proxy for something else, perhaps a progressive political culture. Some simple checks do not support that view. The proportion of the presidential vote that went to Roosevelt in 1912, often used as a measure of progressivism, had no independent effect in an augmented version of specification 1. Inclusion of this variable also had little effect on the credit-union variable. We also experimented with the some other indices used by Fishback and Kantor. We constructed dummies that are one if various measures favored by the progressives were in force in the year prior to the USLL's adoption. These measures include "good government" laws such as a merit examination system for state government jobs, or direct primaries for elections. To our great surprise, the only such variable that had any effect – the state merit exam variable – had a significantly *negative* effect on the USLL's passage. We do not include it in the models reported in Table 2 because inclusion of this variable does not alter the sign or magnitude of the other estimated effects.

5. Conclusions

The RSF devoted considerable effort to the USLL over multiple decades. This effort reflected in part the kind of resources the RSF could deploy. A foundation could not deliver votes or other forms of political muscle, nor could it spend tens of millions of dollars, but it could offer expert knowledge and a legal template. As a type of public policy, the USLL played to the RSF's strengths. The RSF appeared not to be pursuing its own interests, but rather supporting a law whose ostensible beneficiaries

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(poor borrowers) almost never acted on their own behalf. Thus, the RSF strategy epitomized foundation-based scientific philanthropy. The design and passage of such a law required expert knowledge, and its conformity with the larger uniform law project of the legal profession simply underscored its timeliness and suitability. Such measures are politically attractive to legislators and governors because passage signals to voters that politicians are "doing something," and addressing a problem with a law is much cheaper than doing so with an administrative apparatus (particularly if the latter has to be established *de novo*). And if the supporters (the constituencies of the AILA, AAPFC, and perhaps organized labor) of a small loan law can muster more political pressure than the opponents (the traditional lenders), then so much the better.

References:

Manuscript Collections:
Library of Congress:
    Records of Russell Sage's Department of Remedial Loans are held in the Library of Congress manuscripts division, organized by boxes only. LC x means "Library of Congress collection Box x."
Rockefeller Archives Center:
    Some correspondence was kept from the Library of Congress because it contained sensitive materials. This material is organized by folders within boxes, so RAC x/y means Rockefeller Archives Center collection Box x/Folder y.
Credit Union National Association Archives, Madison, WI.
    Letters of Roy F. Bergengren 1921-1937 Box B2A/01; and Filene correspondence 1925-32 B4A/03. Referenced with the prefix: CUNA-A.

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Table 1: Sources and descriptive statistics

Variable	Definition	Mean (std. dev.)	Source
Manufacturing wages	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 F & K
Large firms	Percentage of Value Added in Establishments with More than $1 million in value added for years 1904, 1909, 1914, 1919, 1929, 1939 with straight-line interpolations for years in between	.43 (.19)	Interpolation between census years; from F & K
Urban	Percentage of state's residents resident in cities of more than xx thousand	.41 (.21)	Interpolation between census years; from F & K
Credit unions	Number of credit unions formed in that state to that date	.42 (1.59)	Department of Labor reports
State banks	Average state bank liabilities	1.58 (2.88)	Federal Reserve's All-Bank Statistics

Note: F & K is Fishback and Kantor (2000), as posted to the web at
http://uaeller.eller.arizona.edu/%7Efishback

Table 2: Econometric models
T-ratios in parentheses

Type of model	1	2	3
	Binary logit (with robust standard errors) [dy/dx]	EM/proportional hazards	EM/proportional hazards
Constant	-3.638 (-3.60)	NA	NA
Urban	2.833 (1.68) [.052]	2.421 (1.375)	4.548 (2.265)
Wages	-2.924 (-1.37) [-.054]	-3.25 (-3.383)	-2.790 (-2.046)
Large firms	4.800 (2.27) [.089]	2.809 (1.384)	2.593 (1.055)
Credit unions	.445 (2.95) [.008]	.431 (2.348)	.464 (2.621)
Banks	-2.62 (-2.47) [-005]	-.229 (-1.755)	-.343 (-2.449)
Log-likelihood	-112.022	-101.810	-98.460

Table 2, continued

(standard errors in parentheses)

Variable	Specification 2	Specification 3
Spatial correlation		
South	-5.808 (-1.052)	
Border		.723 (.950)
Population		.277
Unobserved heterogeneity		
Location of support	1.892 (>10)	2.067 (>10)
Probability	.004 (>3)	.062 (>3)

Notes:

The standard errors from specification one are estimated by White's method. In specifications 2 and 3, the standard errors are estimated from the inverse observed information matrix.

The information reported in this continuation of Table 2 is not relevant to the first specification.

In specification 2, the W matrix consists of a dummy for Southern states. In specification 3, there are two W matrices, one for whether the states border each other, and the second for their populations. The two spatial correlation coefficients are constrained to sum to one.

The unobserved heterogeneity supports are standardized to have a mean of one. What is reported is the effect on the baseline hazard of being a "likely to pass" state, and the probability of being such.