

# The Borrower's Tale: A History of Poor Debtors in *Lochner* Era New York City

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ANNE FLEMING

When asked why he did not read over the loan documents before signing them, John Doherty explained: "I was anxious to get the money, I didn't bother about it." In February 1910, the twenty-three-year-old railroad clerk walked into the offices of the Chesterkirk Company, a loan-sharking operation with offices in lower Manhattan. He was looking to borrow some money. Repayment was guaranteed by the only security Doherty had to offer: his prospective wages and, in his words, his "reputation." After a brief investigation of Doherty's creditworthiness, the loan was approved. The office manager placed a cross in lead pencil at the bottom of a lengthy form and Doherty signed where indicated. He received \$34.85 in exchange for his promise to repay the loan principal plus \$10.15 in combined fees and interest in three months. The interest charged was significantly greater

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Anne Fleming is a Climenko Fellow and Lecturer on Law at Harvard Law School, a Ph.D. candidate in history at the University of Pennsylvania, and a graduate of Harvard Law School <aflem@sas.upenn.edu>. She thanks Sarah Barringer Gordon, Michael Katz, Thomas Sugrue, Kathleen Brown, Walter Licht, and Sophia Lee for their insightful suggestions and critical guidance. Jeremy Dell, Sean Dempsey, Hope McGrath, and the other members of the author's research methods seminar offered perceptive critiques and invaluable support in the early stages of the project. For further assistance, she also thanks participants in the 2011 American Society for Legal History meeting and 2010 Institute for Constitutional History summer research seminar, especially Christine Desan, William Wiecek, Charles McCurdy, Maeva Marcus, Aviam Soifer and Risa Goluboff. David Tanenhaus, Robert Johnston, and two anonymous reviewers for *Law and History Review* provided generous and expert criticism that improved the article immensely.

than the 6 percent per year allowed in New York State. Doherty's effective annualized interest rate, including fees, was over 100 percent.<sup>1</sup>

By the early twentieth century, small loans secured by a lien on the borrower's future wages, or "salary loans," had become a common source of credit for urban working-class laborers. One 1908 study concluded that there were at least thirty known salary lenders operating in New York City, and likely many others whose presence could not be ascertained because they did not advertise publicly. Anecdotal evidence confirms that the number of workers who patronized salary lenders was quite high, at least in certain trades. One transportation company employee in New York City estimated that at least 90 percent of his coworkers had taken out salary loans. Of course, salary lenders were by no means the only game in town. Chattel lenders, who made loans secured by a lien on the borrower's household goods, as well as pawnbrokers, who had been providing credit to poor borrowers for centuries, also operated in New York City.<sup>2</sup>

Early efforts to regulate small-scale lending failed to halt its spread or prevent high interest charges. New York State strongly discouraged salary lending by capping the interest rate on salary loans at 6 percent and imposing additional procedural requirements on lenders. These regulations made it difficult for lenders of small sums to turn a profit, but did not eliminate the business in New York. Demand for loans was high and, if the usury laws could be evaded, the business was profitable. The small loan business, therefore, operated in a shadow zone, outside the bounds of state and local law.<sup>3</sup>

1. "Q. Did you read the power of attorney over? A. No sir. Q. When you signed it? A. No sir. Q. And you had no security to secure this loan except your prospective wages? A. And my reputation." Trial transcript, Record on Appeal, *Thompson v. Erie Railroad Co.*, 207 N. Y. 171 (1912) [Trial before the Municipal Court on December 22, 1911], Box 553, Vol. 127, Series J2002-82A, New York State Court of Appeals Cases and Briefs, New York State Archives (hereafter NYSA). The effective annualized interest rate including fees (116.4993 percent) is calculated according to the standards for determining the annualized percentage rate (APR) for a closed-end credit transaction set forth in Regulation Z of the federal Truth in Lending Act, to allow comparison with the rates offered on present-day short-term loans such as payday loans. See 12 C.F.R. Part 226, Appendix J (rules for calculating APR for closed-end credit).

2. On the number of salary lenders and borrowers, see Clarence W. Wassam, *The Salary Loan Business in New York City: A Report Prepared Under the Direction of the Bureau of Social Research, New York School of Philanthropy* (New York: Charities Publication Committee, 1908), 25–26.

3. In the early nineteenth century, the legal rate was set at 7 percent per year. *Dunham v. Gould*, 16 Johns. 367 (N.Y. Sup. Ct. 1819); N.Y. Rev. Stat. vol. I, pt. II, ch. iv, tit. iii, § 1 (Packard and Van Benthuysen 1829) (codifying provisions of the Revised Laws of 1813, vol. I, §§1–2, p. 64). In 1879, the law was amended to reduce the legal rate to

Yet loan sharks, as chattel and salary lenders were often called, could not escape the watchful eyes of progressive reformers. The explosive growth of the small-scale lending industry and the mounting debt burden it placed on poor borrowers captured the attention of reformers concerned with urban poverty. Social reformers nationwide actively debated the problem and experimented with a range of solutions, from lending by philanthropic loan organizations and employer savings and loan associations to education and legal reform.<sup>4</sup> In the process, the lending industry emerged as an arena of conflict in which the interests of debtors, creditors, reformers, and judges vied for dominance. Much more than the fate New York's usury laws was at stake. To understand the political economy of credit for the poor, reformers had to grapple with larger issues such as the causes of the poverty in industrial cities, the nature of twentieth-century American capitalism, and the limits of charity and freedom of contract. Most importantly, in considering the desirability and constitutionality of regulating private economic decision making, they had to consider the proper relationship between the state and the market.<sup>5</sup>

Unlike their fellow progressives who battled the employers of child labor and producers of impure food and drugs, lending reformers were wary of heightened governmental interference in the marketplace. Reformers did not believe that tighter regulation of interest rates could tame the loan market or shield borrowers and lenders from the laws of supply and demand. The anti-loan shark campaign confronted an industry in which problems persisted despite strict usury regulations, some dating

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6 percent per year. Laws of 1879, Chapter 538 (amending Title III, Chapter IV of Part II of the Revised Statutes).

4. Arthur H. Ham, "The Court of Appeals and the Loan Shark," *The Survey* 29 (January 11, 1913): 472–73 (advocating the organization of employees' savings and loan associations as an alternative to borrowing from loan sharks). In October 1912, reformers also released an educational film dramatizing the plight of a wage earner who borrows from a loan shark to pay for his child's medical expenses. "The Loan Shark in a Photo-Play," *The Survey* 28 (September 21, 1912): 756.

5. Present-day debates over the uses of microfinance in the developing world also touch on these key questions. On the poverty experts involved and their competing views on the nature of capitalism, charity, and the regulation of markets, see Ananya Roy, *Poverty Capital: Microfinance and the Making of Development* (New York: Routledge, 2010). Fears of socialism and its perceived threat to capitalism may have served to fuel the search for a solution that would reinforce the existing political economy. One Chicago business leader wrote, in advocating for his plan to establish a business to lend small sums to workers: "By uniting business and philanthropy . . . we will create an agent to fight socialism. This is not in any sense a charity. We merely ask that the speculative profit be disregarded for the purposes of our project. . . . My own feeling about these problems is that too much is done in the name of charity and that we are in danger of becoming bankrupt in self-respect." "Rosenwald Banks Sharks' Nemesis," *Chicago Daily Tribune*, January 3, 1914, 5.

back to the colonial era. Instead of increased state involvement, the campaign sought to solve the credit problems of the poor by drawing more capitalists into the small-scale loan market and rallying large corporate employers to the cause. Borrowers would be better protected from exploitation, reformers reasoned, by fostering competition among lenders in the marketplace, rather than by creating new regulations to be enforced by borrowers in court. Reformers also called upon private corporate employers to police the lending industry by refusing requests from loan sharks to collect usurious interest from borrowers' wages.<sup>6</sup>

The campaign against the "loan shark evil" thus highlights the limits of progressive statism. The ideology of progressive reformers, dubbed "Progressivism," has been characterized by its support of government intervention through regulation and opposition to an ideology of laissez-faire free-market individualism.<sup>7</sup> Yet, lending reformers envisioned a relationship between the state and the lending industry that challenges, in some respects, the classic narrative about reformers in this period. In New York and nationwide, the anti-loan shark campaign advocated measures to foster market-based competition with the sharks, such as by forming remedial loan societies and raising interest rate ceilings to entice more capital into the market. The New York Charity Organization Society, for example, offered loans to would-be charity recipients in lieu of or in addition to providing cash and in-kind relief. By providing poor relief applicants with interest-free loans, the Society reasoned, it would steal customers from the loan sharks and drive the bad actors out of business. The Society also encouraged the recently formed Russell Sage Foundation to study the lending industry and corresponded regularly with Foundation leaders during the early years of the anti-loan shark campaign, referring cases back and forth.<sup>8</sup>

6. On colonial usury laws, see James M. Ackerman, "Interest Rates and the Law: A History of Usury," *Arizona State Law Journal* 1981 (1981): 85. As in the early twentieth century, these laws were frequently evaded or ignored throughout the eighteenth and nineteenth centuries. Opponents of usury laws deployed similar arguments in a wave of attacks on usury regulation between 1825 and 1838. In the face of this onslaught, most states retained their usury laws, but in weakened forms. Morton J. Horwitz, *The Transformation of American Law, 1780–1860* (Cambridge, MA: Harvard University Press, 1977), 241–44.

7. See, for example, Thomas C. Leonard, "American Economic Reform in the Progressive Era: Its Foundational Beliefs and Their Relation to Eugenics," *History of Political Economy* 41 (2009): 114. For a partial historiography of progressivism, see Daniel T. Rodgers, "In Search of Progressivism," *Reviews in American History* 10 (1982): 113–32.

8. As the term "loan shark" was in common usage during this period, I have used it throughout this study to refer to moneylenders who charged usurious rates of interest on loans of small sums. The term had entered common usage by the turn of the last century. See, for example, "War on the Loan Sharks," *Chicago Daily Tribune*, November 17, 1900, 16. The New York

The Foundation became the pre-eminent advocate of remedial lending and of raising interest rate caps on small lenders to encourage legitimate businesspeople with “honest capital” to enter the small loan business. It argued that a “legislative remedy lies not in the passage of further restrictive laws but in the enactment of measures allowing a sufficient rate of interest to attract the capital of reputable men to the business, thus affording the competition necessary to keep profits within reasonable limits.” One Sage Foundation official scoffed at the foreign governments that “attempted to regulate the business by making it a governmental monopoly.” He noted with pride that in America, “under our individualistic form of government such regulation has not been attempted.” Instead of more rigid governmental controls on interest rates, reformers embraced market mechanisms to curb the abuses of the small-scale lending industry. In this way, small-scale lending reformers had much in common with anti-trust advocates who opposed strong judicial intervention against restraints of trade, but embraced limited regulation to clear the market of business combinations that sought to suppress competition. Theirs was not an expansive vision of state involvement in private economic relationships.<sup>9</sup>

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Hebrew Free Loan Society also provided loans, but these were generally intended for Jewish businesspeople rather than for the poor. Shelly Tenenbaum, *A Credit to Their Community: Jewish Loan Societies in the United States, 1880–1945* (Detroit: Wayne State University Press, 1993), 48–49, 69, 98. For correspondence between the Society and the Foundation, see, for example, Arthur Ham to Esther Baldwin (Charity Organization Society), January 18, 1916, “New York - S.L., 1916 Loan Shark Campaign” Folder, box 36, Russell Sage Foundation Collection, Manuscript Division, Library of Congress (hereafter RSF LOC); W. Frank Persons (C.O.S.) to Arthur Ham, December 15, 1910, “New York - S.L., 1911–1913 Loan Shark Victims [3]” Folder, box 39, *ibid.*

9. On the Foundation’s advocacy for higher interest ceilings for small loans, see, for example, Agent of the Russell Sage Foundation to William Church Osborn (counsel to the Governor of New York), June 29, 1911, “New York - S.L., 1911 General” Folder, box 38, *ibid.*; and Arthur H. Ham, “A Year’s Progress in Remedial Loan Work,” in *Proceedings of the National Conference of Charities and Corrections* (Fort Wayne, IN: The Archer Printing Co., 1910), 487. Echoing this view, Buffalo-based reformer Ansley Wilcox also rejected adopting municipal lending operations based on the European model because, in America, “the paternalistic features of this plan would make it objectionable.” Ansley Wilcox, “The Loan Shark Evil: Remedial Legislation, Its Possibilities and Limitations,” *The Legal Aid Review* 9 (1911), “New York - S.L., Summaries Loan Shark Campaign” Folder, box 41, RSF LOC. On antitrust policy debates, see Martin J. Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the Law, and Politics* (Cambridge: Cambridge University Press, 1988), 203–53; see also Subcommittee of the Senate Committee on the Judiciary, Amendment of Sherman Antitrust Law: Hearings on S. 6331 and 6440, 60th Cong., 1st Sess., 1908, 7–31 (statement of Seth Low, chairman of the National Civic Federation).

The outlook of the lending reform movement resonated with the jurisprudential philosophy of the age, which was skeptical of judicial and legislative interference with privately negotiated economic arrangements. As celebrated jurist Oliver Wendell Holmes explained in 1901, “[c]ourts are less and less disposed to interfere with parties making such contracts as they choose, so long as they interfere with no one’s welfare but their own.” At this time, the common law of contracts disfavored judicial tampering with private bargains as against “public policy.” Going a step further, turn-of-the-century courts imported the common law presumption in favor of enforcing contracts into constitutional law, recognizing a fundamental right against legislative interference with individual “liberty of contract.” The paradigmatic case illustrating this legal philosophy is *Lochner v. New York*, in which the Supreme Court dealt a blow to governmental efforts to regulate the weekly working hours of bakers in the name of defending contractual freedom. In *Lochner*, the Court overturned a New York law that limited bakers’ hours on the grounds that the law was an “unreasonable, unnecessary and arbitrary interference with the right of the individual to his personal liberty or to enter into those contracts in relation to labor which may seem to him appropriate or necessary for the support of himself and his family.” According to *Lochner* and its progeny, individual economic rights could not be infringed except in the interest of the health, welfare, or safety of the public. The power to determine whether a regulation was in the public interest, policing the line between that which could be regulated (the public) and that which could not (the private), fell to the courts.<sup>10</sup>

Borrowers were not the same as bakers, of course. There was a long tradition of the state protecting borrowers from unscrupulous lenders; usury laws, guarding against excess interest charges, number among the oldest forms of economic regulation. When providing examples of “ancient” laws that evidenced the long history of governmental interference with liberty of contract, Justice Holmes cited usury laws and Sunday laws in his *Lochner* dissent. No court dreamed of voiding interest rate caps entirely. Rather, judicial discretion came into play in how courts construed loan agreements, the reach of common law contract defenses, and regulations related to disclosures and lender licensing. Judges’ decisions in small-scale debt collection cases reveal the state in action, puzzling over how to balance protectionism and paternalism, the limits of freedom of contract, and the legality of regulating private economic decision making.<sup>11</sup>

10. *Daley v. People’s Building, Loan, & Savings Ass’n*, 59 N.E. 452, 453 (Mass. 1901) (Holmes, C.J.). *Lochner v. New York*, 198 U.S. 45, 56 (1905).

11. *Lochner v. New York*, 198 U.S. at 75 (Holmes, J., dissenting). Holmes used the same examples of longstanding forms of economic regulation—usury laws, Sunday laws, and

The life stories of working-class borrowers who became indebted for small sums of money, to charitable institutions or loan sharks, are at the center of this history. *The Borrower's Tale* draws on archival material from a variety of sources—the casework records of the New York Charity Organization Society, New York State civil and criminal case files, and the records of the Russell Sage Foundation's Department of Remedial Loans—to follow poor New Yorkers as they crossed institutional boundaries, seeking money to make ends meet. These records describe more powerfully than aggregated data and statistics ever could the constraints and compulsions under which borrowers exercised their “freedom of contract.” They detail the political and economic forces that shaped the credit decisions of poor families, revealing the links between household economy and political economy.<sup>12</sup>

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lotteries—in a pre-*Lochner* opinion in which he was in the majority. See *Otis v. Parker*, 187 U.S. 606, 609 (1903) (“No court would declare a usury law unconstitutional, even if every member of it believed that Jeremy Bentham had said the last word on that subject, and had shown for all time that such laws did more harm than good. The Sunday laws, no doubt, would be sustained by a bench of judges, even if every one of them thought it superstitious to make any day holy.”)

12. The Charity Organization Society collection, which contains over a thousand casework files documenting the Society's dealings with individual families, includes a subset of cases in which it is apparent that the household “under care” requested and received a loan from the Society. These cases were less common than those in which households received a grant of money or in-kind relief, but larger in number than the small scholarship on loans as a form of charitable assistance would suggest. The cases highlighted here were selected because the relief applicant clearly received a loan from the Society and the records contain sufficient detail to allow an historian to reconstruct the borrowers' histories, loan terms, and interactions with the Society. For other histories of poor families visited by the New York Charity Organization Society, see Michael B. Katz, “Devotion and Ambiguity in the Lives of a Poor Mother and Her Family in New York City, 1918–1919,” in *Reconstructing the Common Good in Education: Coping with Intractable American Dilemmas* (Stanford: Stanford University Press, 2000); Michael B. Katz, *Improving Poor People: The Welfare State, the “Underclass,” and Urban Schools as History* (Princeton, N.J.: Princeton University Press, 1955), 144–172; Michael B. Katz, “The History of an Impudent Poor Woman in New York City from 1918 to 1923,” in *The Uses of Charity: The Poor on Relief in the Nineteenth Century Metropolis*, ed. Peter Mandler (Philadelphia: University of Pennsylvania Press, 1990), 227–46. The Society records provide extraordinarily detailed information about the daily lives of the loan recipients, but limited information about borrowing from non-philanthropic sources.

New York State appellate court records from debt collection cases and usury prosecutions contain more detail about private lending operations and loan terms. (New York's trial court records for debt cases from this period have been destroyed.) The records on appeal include loan documents and transcripts of testimony by borrowers and moneylenders, loan terms, information about borrowers' lives outside of their financial dealings with moneylenders. Additional evidence was located in 1900 and 1910 U.S. Census records and in New York City directories. John Doherty's case was among the few New York debt

This study adds to the recent scholarship on Progressivism in practice—fine-grained, place-based studies of reform at the local level—but focuses closely on the relationships among reformers, industry, and the law that an earlier generation of historians studied at the national level and outlined in broad brushstrokes.<sup>13</sup> This study also builds upon the creditor-centered work of historians such as Mark H. Haller and John V. Alviti, but moves beyond their reliance upon distinctions and categories, such as those separating profit-making credit providers from philanthropic credit providers, which were less important to borrowers than they have been for historians. In focusing primarily on the lived experience of poor borrowers, this article imports into the study of household credit relationships an approach mapped out by several historians of social welfare policy and institutions, who have attempted to reorient the institution-centered historiography of social welfare to give greater weight to the perspectives of welfare recipients. This study attempts to correct a similar imbalance in the historiography of household credit relationships.<sup>14</sup>

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collection cases that reached the appellate courts and was accordingly closely watched by those involved in the campaign against the loan shark.

13. For recent scholarship, see, for example, Robert D. Johnston, *The Radical Middle Class: Populist Democracy and the Question of Capitalism in Progressive Era Portland, Oregon* (Princeton: Princeton University Press, 2003); and Michael Willrich, *City of Courts: Socializing Justice in Progressive Era Chicago* (Cambridge: Cambridge University Press, 2003). Older, broad-based national studies of Progressive-era regulation of industry include Gabriel Kolko, *The Triumph of Conservatism* (New York: Free Press of Glencoe, 1963); and Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, MA: Harvard University Press, 1962).

14. Mark H. Haller and John V. Alviti, "Loansharking in American Cities: Historical Analysis of a Marginal Enterprise," *American Journal of Legal History* 21 (1977): 125–56. Haller and Alviti provide a detailed history of changes in the business of salary lending in the early twentieth century, but do not delve into the lives of borrowers. Louis Hyman's history of consumer credit in the twentieth century briefly describes lending practices in this period. *Debtor Nation: The History of America in Red Ink* (Princeton: Princeton University Press, 2011), 13–16. Historian Peter Shergold's Pittsburgh-based study gives greater attention to the social conditions that created demand for small loans, but does not look at individual borrowers and focuses more on the loan sharks than on their customers. Peter R. Shergold, "The Loan Shark: The Small Loan Business in Early Twentieth-Century Pittsburgh," *Pennsylvania History* 45 (1978): 195–223. Another work in this vein is Michael Easterly, "Your Job Is Your Credit: Creating a Market for Loans to Salaried Employees in New York City, 1885–1920" (PhD diss., University of California, Los Angeles, 2008). Lendol Calder's *Financing the American Dream* contains a more sustained discussion of borrowers in the context of a transformation in attitudes about consumptive debt during the early twentieth century. Lendol Glen Calder *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton: Princeton University Press, 1999), 42–58. On the need to reorient the historiography of social welfare to take into account the experience of those living in poverty, see Michael B. Katz, *Poverty and Policy in American History* (New York: Academic Press, 1983), ix, 14; and Stephen Pimpare, "Toward a New Welfare History," *Journal of Policy History* 19 (2007): 239.



The value of viewing the history of credit through the lived experiences of working-class households is not solely in documenting the human dignity and agency of poor borrowers, although this is certainly one of the goals of this study. Rather, by looking at credit relationships from the borrower's point of view, a number of different institutions, groups, and policies that borrowers experienced as simultaneous and overlapping, but that historians have usually studied separately from one another, are brought into the same analytic frame. Thus, in contrast to prior work, this study treats charitable and for-profit lenders to the poor together as participants in the same market for working-class credit. The debtors' stories presented here show how impoverished families organized their financial lives, made ends meet, and employed borrowing as a survival strategy.<sup>15</sup>

### I. Life on the Margins: Two Borrowers' Stories

Many working-class men and women in early twentieth-century American cities had reason to borrow small sums and access to some form of credit.<sup>16</sup> By the turn of the century, major structural changes in domestic and economic life had caused working-class households' financial emergencies to become more frequent and more devastating. Urban laborers' reliance on wages as a primary or sole source of income rendered the hardship caused by a sudden loss of employment especially acute, while seasonal layoffs and the higher risk of injury in industrial work increased the likelihood of unexpected loss of the means of self-support. Salary loans were a viable business for lenders beginning in the late nineteenth century because of the

15. On the importance of studying the lived experience of poor people, see Katz, *Improving Poor People*, 159. Other scholars, who examine the for-profit side of the market, contextualize loan sharks as precursors to the consumer credit providers that arose later to serve middle-class borrowers. I question whether loan sharks are part of middle-class consumer history, as the poor borrowers who patronized loan sharks rarely took out loans to purchase consumer goods. Turn-of-the-century loan sharks might instead be viewed as providers of subsistence credit and part of the history of urban poverty, precursors to the payday lenders and other "fringe banking" institutions that now serve the urban poor in our modern, two-tiered credit system. On the modern divided credit market, see Lynn Drysdale and Kathleen E. Keest, "The Two-Tiered Consumer Financial Services Marketplace: The Fringe Banking System and Its Challenge to Current Thinking About the Role of Usury Laws in Today's Society," *South Carolina Law Review* 51 (2000): 589–669.

16. I use the terms "poor" and "working-class" interchangeably throughout this study to reflect that the borrowers studied lived in poverty while also, sometimes intermittently, employed as domestic, manual, or industrial laborers. I use "poor" to mean having insufficient income and assets to maintain an adequate standard of living and "working-class" to include those who work for wages through low-skilled clerical or manual labor.

concentration of demand for small-scale credit in urban centers and the rise of a class of salaried, industrial workers whose future income could serve as collateral. Just as the demand for credit was elevated by the risks of urban, industrial life, the characteristics of an urbanized and industrialized workforce encouraged the expansion and proliferation of small-scale lending operations.<sup>17</sup>

This history of working-class borrowing begins with two case studies that illustrate the conditions under which borrowers exercised their “freedom of contract.” The two debtors whose stories are presented here, one who borrowed from a loan shark and the other from the New York Charity Organization Society, entered the market for working-class credit at different points. The creditors from whom they borrowed engaged in different lending practices and served different, although sometimes overlapping, sections of the New York working class. Because these two lenders operated in separate sectors of the same credit market and each left behind business records that are incomplete in different ways, each borrower’s story enriches the other, creating an overall deeper and more textured picture of working-class credit relationships in Progressive-era New York City.

Both borrowers lived and worked in New York City, the epicenter of the battle over lending to the working class. Although New York cannot be considered typical, the differences between New York and other urban centers are more a matter of scale than of kind. New York City’s large size and the significant number of large corporate employers and social reform organizations located there made the credit problems of the working class both more apparent and more urgent than in other cities. However, loan sharks and the organizations that opposed them were active in small and large cities across the Northeast and Midwest.<sup>18</sup>

17. One investigation found that 20 percent of New York City civil service employees had borrowed from loan sharks at one time or another. “Fosdick Hits Hard at the Loan Sharks,” *New York Times*, July 13, 1911, 18. Another, Robert Chapin’s study of New York City workingmen’s families, found that only 42 out of 318 families (13.2 percent) reported borrowing. Sixty-four percent of families, however, reported either a deficit between income and expenditures or that their income was barely sufficient to meet expenditures (within a range of \$25). This suggests that borrowing may have been under-reported by the families surveyed. Robert Coit Chapin, *The Standard of Living Among Workingmen’s Families in New York City* (1909; repr. New York: Arno Press, 1971), 235–44 (Tables 119–28). Louise More’s study of wage earners in New York City also found that the majority of the 200 families she surveyed (49.5 percent) had incomes below the estimated minimum required for a family to be self-supporting (\$800). Louise Bolard More, *Wage-earners’ Budgets: A Study of Standards and Cost of Living in New York City* (1907; repr. New York: Arno Press, 1971), 6, 269–70.

18. On the large number of social reform organizations in New York, see John Louis Recchiuti, *Civic Engagement: Social Science and Progressive-Era Reform in New York*

Common themes emerge from these two stories, but neither can be considered representative. The variety of these borrowers' approaches and results underscores the multiplicity of individual experiences that cannot be captured in a single case study. Poor people employed an array of methods to ensure that they and their families had the necessities to survive, such as adequate food, housing, clothing, and medical care. Although these case studies do not tell us how many borrowers used certain types of credit or patronized particular lenders, their experiences illustrate some of the survival strategies of working-class households.

### *John Doherty*

We do not know why John Doherty was in need of a loan in February 1910. Doherty earned a decent wage of \$70 per month as a clerk for the Erie Railroad, where his older brother, James, also worked. He had no known involvement with public or private charity. He lived with his parents and younger brother, whom he and James supported with their earnings. Doherty had attended school at least through his fourteenth birthday, before joining the workforce. The family's finances were sufficiently stable that Doherty's youngest brother, George, sixteen, could go to school full time.<sup>19</sup>

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*City* (Philadelphia: University of Pennsylvania Press, 2006), 3. New York's loan shark problems were similar to those in other industrial, urban centers. See, for example, Shergold, "The Loan Shark: The Small Loan Business in Early Twentieth-Century Pittsburgh." One critical difference between Pittsburgh and New York was the scope of lending by charitable organizations. Pittsburgh had hardly any. *Ibid.*, 200. The published proceedings of the National Federation of Remedial Loan Associations and the National Conference on Social Welfare, two national associations of organizations dedicated to social reform, also confirm the essential similarity of moneylenders' and reformers' concerns about working-class access to credit in cities across the country. See, for example, *Proceedings of the National Federation of Remedial Loan Associations* (Baltimore: Lucas Brothers, Inc., 1912); Ham, "A Year's Progress in Remedial Loan Work." In 1911, there were reportedly 100 moneylenders operating in Boston, 58 in Atlanta, 24 in Syracuse, 12 in Portland, Maine, and between 200 and 300 in New York City. In response, crusades against the loan shark were launched in more than a dozen cities from Augusta, Georgia to Des Moines, Iowa. As of June 1911, twenty-two states and the District of Columbia were contemplating legislation to address loan sharking. *Proceedings of the National Federation of Remedial Loan Associations*, 3–4, 17.

19. The lawyer for Doherty's employer objected to opposing counsel questioning Doherty about his prior borrowing habits. Trial transcript, *Thompson v. Erie Railroad Co.*, 207 N.Y. 171 (1912), Box 553, Vol. 127, Series J2002-82A, NYSA. On Doherty's household, see 1900 United States Federal Census (Population Schedule), New York, New York, ED 662, Sheet 9, Dwelling 28, Family 185, Doherty household (Digital scan of original records in the National Archives, Washington, DC), <http://www.ancestry.com> (December 12, 2009)

Assuming Doherty and his brother James earned roughly equivalent salaries, the income for Doherty's family of five would have been approximately \$1680 per year. This sum is higher than most estimates of the cost of living for a family of five in New York City at this time. Unexpected expenses, however, were frequently a cause for borrowing among workingmen's families. Sickness or death in the family ranked among the most common reasons for taking out a loan. None of Doherty's household members died near this time, but a more distant family member may have died or someone may have fallen ill.<sup>20</sup>

Although Doherty was born in New York, his father and grandparents were Irish immigrants, as were many of his neighbors. Doherty's father, a retired druggist, had emigrated to New York in the 1850s from Ireland, whereas his mother, the child of two Irish immigrants, was born in New York. In Doherty's East Side neighborhood more than 90 percent of the population was born outside the United States or had one or more parents born outside the United States. The neighborhood was overwhelmingly of white, European descent. Austrians and Irish dominated. Doherty's neighbors in his building on East 58th Street reflect the immigrant and working-class character of the neighborhood. Three out of the four male household heads were foreign-born, naturalized citizens; the lone first-generation American was the son of two German immigrants. Only one of the nineteen building occupants was the child of two native-born parents. Most of Doherty's neighbors were manual laborers or clerical

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(hereafter Ancestry); and 1910 United States Federal Census (Population Schedule), New York, New York, ED 1005, Sheet 7A, Dwelling 64, Family 135, Doherty household, *ibid.*

20. Caroline Goodyear, "A Study of the Minimum Practicable Cost of an Adequate Standard of Living in New York City," in *Proceedings of the New York State Conference of Charities and Correction* (Albany: J.B. Lyon Company, 1907), 51 (estimating the cost of living for a self-supporting family of five in New York City at \$1054 per year); More, *Wage-Earners' Budgets*, 269–70 (\$800–\$900 per year); and Chapin, *The Standard of Living Among Workingmen's Families in New York City*, 245–47 (\$900–\$1000 per year). The differences among these estimates reflect in part researchers' differing understandings of what constituted an adequate standard of living. For more on budget studies and researchers' attitudes about working-class spending, see Daniel Horowitz, *The Morality of Spending: Attitudes Toward the Consumer Society in America, 1875–1940* (Baltimore: Johns Hopkins University Press, 1985), 50–66. On reasons for borrowing, see Wassam, *The Salary Loan Business in New York City*, 19–21; and Lee K. Frankel, "The Relation Between Standards of Living and Standards of Compensation," in *Proceedings of the New York State Conference of Charities and Correction* (Albany: J.B. Lyon Company, 1907), 24 (detailing study of 100 families who applied for assistance from the United Hebrew Charities in 1905, 62 of which were in need because of sickness). A comparison of Doherty's household members between the 1900 and 1910 censuses shows no change in the family composition. The 1910 census was taken in April 1910, several months after Doherty took out a loan.

workers. They included a barber, a bookkeeper, a stonemason, a fireman, a packer at a coffee mill, a dock laborer, a city patrolman, and a stenographer.<sup>21</sup>

The population density in this part of the city was high (100–149 persons per acre), but not nearly as crowded as the Lower East Side, areas of which housed more than 600 persons per acre. In 1910, New York City's population was booming. By 1910, the city contained half of the state's population. Immigration accounted for a significant portion of the population influx. In a nation of immigrants, turn-of-the-century Manhattan was an island of immigrants: of 2.3 million Manhattan dwellers, more than 1.9 million were either foreign born or had one or more parents born outside the United States.<sup>22</sup>

Although Doherty lived on the Upper East Side, the economic geography of his universe can be mapped onto the streets of lower Manhattan. The main offices of the Erie Railroad, Doherty's employer, were housed in the twenty-two-story Hudson Terminal Building at 50 Church Street (later demolished to make room for the World Trade Center). A block away, the lower Manhattan section of Broadway was lined with turn-of-the-century skyscrapers and was home to businesses such as the Union Telegraph Company and the New York Telephone Company. Major moneylenders also had offices in the area, where they could be patronized by the railroad brakemen,

21. Doherty's neighborhood was between 56th Street and 73rd Street and Third Avenue and the East River. The "non-white" population comprised less than 0.001 percent of the total population; there were 89 non-white residents in a neighborhood of 74,594 people. United States Census of Population and Housing, 1910: Summary Population and Housing Characteristics: New York (Washington: Government Printing Office, 1913), 254 (Assembly District 18). On the Doherty household's neighbors, see 1910 United States Federal Census (Population Schedule), New York, New York, ED 1005, Sheet 7A, Dwelling 64, Ancestry.

22. G. W. Bromley & Co., "Atlas of the City of New York, Borough of Manhattan" (Plate 27) 1911 (Digital scan of map in the New York Public Library, The Lionel Pincus and Princess Firyal Map Division) <http://digitalgallery.nypl.org> (December 21, 2009). The Borough of Manhattan alone grew by 26 percent between 1900 and 1910, from 1,850,095 to 2,331,542 people. During that time, the city's population density also increased, from 131.8 to 166.1 persons per acre. *Report of the New York City Commission on Congestion of Population* (New York: Lecouver Press Company, 1911), 110. The portion of the New York State population living in urban areas had increased from 72.9 percent in 1900 to 78.8 percent a decade later. Statewide, cities with a population of at least 2500 grew by 34.3 percent, whereas the state's rural population grew by less than 0.01 percent. *United States Census of Population and Housing, 1910: Summary Population and Housing Characteristics: New York* (Washington, DC: Government Printing Office, 1913), 190–91, 208, 217. Immigrants from Austria, Germany, Russia, Ireland, and Italy accounted for more than 80 percent of the Manhattanites born outside the United States. *Report of the New York City Commission on Congestion of Population*, 6.

clerks, and other working men who constituted their principal customer base. Doherty's salary loan broker, the Chesterkirk Company, was located a block away from his office in the sixteen-story Mail and Express Building on the corner of Fulton Street and Broadway, near the branch office of another loan broker, D.H. Tolman. Doherty could also have easily borrowed from Buell & Company, Wells & Co., or L.G. Smith, all nearby loan offices.<sup>23</sup>

When Doherty walked in the door of the Chesterkirk office, he spoke with the manager, Miss Jessie Dennington, whom he had met before on social occasions. Dennington wrote down Doherty's address, place of employment, length of employment, and salary. Doherty then left to wait for the verdict on his loan application. Soon after, a man from Chesterkirk arrived at the offices of Doherty's employer to inform him that his application had been approved. Doherty returned to the loan office that day and signed the required papers. As Doherty learned later, the document he signed was not a contract or promissory note agreeing to repayment of the sum borrowed. Rather, it was a blank power of attorney, a document granting the agent named in the document wide-ranging authority to conduct business in Doherty's name. Dennington later filled in the blank designating Doherty's agent with the name "Stella Blanding," exactly as she did with all the blank powers of attorney signed that month. Stella Blanding, a resident of Maine, could then conduct the entire loan transaction in Maine, which had repealed its usury laws in the mid-nineteenth century and consequently became a safe haven for loan sharks nationwide.<sup>24</sup>

23. The company relocated its offices to the Terminal Building after it was completed in 1908. *Trow Co-partnership and Corporation Directory of the City of New York*, 1909, 239–40, 568, 834. For a list of loan office locations in New York City and their addresses in 1908, see Wassam, *The Salary Loan Business in New York City*, Appendix XIX. Wassam also includes a list of the most common occupations of the 250 loan applicants sampled, in Appendix XXVIII. "Machinist" was the most common occupation among those included in the sample. On the height of lower Manhattan buildings, see Sarah Bradford Landau and Carl W. Condit, *Rise of the New York Skyscraper* (New Haven: Yale University Press, 1999), 213.

24. We do not know if Doherty's connection to Dennington led him to patronize this particular loan office. Like many loan offices, Chesterkirk employed a woman as manager. Female employees could be paid less than their male equivalents and were, companies believed, more likely to be treated respectfully and nonviolently by male borrowers. Many collection agents were also women. Known as "bawler-outs," female debt collectors tracked down the delinquent borrower at home or work and loudly criticized him for his failure to pay back the money borrowed. Haller and Alvit, "Loansharking in American Cities," 130, 134; Calder, *Financing the American Dream*, 53–54. On Blanding, see Trial transcript, *Thompson v. Erie Railroad Co.*, 207 N.Y. 171 (1912), Box 553, Vol. 127, Series J2002-82A, NYSA. On Maine as a loan shark haven, see Rolf Nugent, "The Changing

Even if Doherty had read the document he signed, it would have made little sense to him. It began:

Whereas, I desire to have made, executed, negotiated, delivered, and sold certain notes to the aggregate amount of \$90.00 or less for which I shall be responsible as maker in the City of Portland, State of Maine, without being then and there present personally, now, therefore, know all men by these presents that I have made, constituted, created and appointed, and by these presents, do make, constitute and appoint \_\_\_\_\_ of the City of Portland, State of Maine, my true and lawful authorized agent and attorney, with full power to do and perform each and every act and thing which said attorney may deem it necessary or desirable to do or perform, to the end that I may accomplish aforesaid result.<sup>25</sup>

Doherty, of course, had no idea that he was giving such power to an unidentified resident of Portland, Maine, much less that the loan transaction would be done in Maine rather than New York City.

Other New York City borrowers also inadvertently gave power of attorney to Stella Blanding, a 27-year-old resident of Portland, Maine. Blanding was crucial to the schemes of several New York City loan brokers—Chesterkirk, Burt Brothers, and Walter Graham among them—to transact their business beyond the reach of New York's usury laws. Blanding worked for the State Trading Corporation, which operated several New York City loan offices. State Trading had no office in Maine and Blanding was its only employee in the state. Her role in each transaction, for which she was paid by State Trading, was simple: pick up the executed power-of-attorney from her Maine post office box, take it to N.W. Hasten Company, execute a series of promissory notes in the name of the borrower for a loan from N.W. Hasten Company, and mail the loaned funds to the borrower in New York.<sup>26</sup>

In Doherty's case, the transaction worked as follows: first, Blanding arranged for the acquisition of Doherty's loan by N.W. Hasten Company of Portland, Maine. (As Doherty's agent, Blanding had a legal duty to act in his best interest. Yet, in spite of that obligation, she did not make

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Philosophy of Small Loan Regulation," *Annals of the American Academy of Political and Social Science* 196 (1938): 205.

25. Record on Appeal, *Thompson v. Erie Railroad Co.*, 207 N.Y. 171 (1912), Box 553, Vol. 127, Series J2002-82A, NYSA.

26. Blanding lived in Providence, Rhode Island prior to her employment by the State Trading Company. She was recommended for the Portland position by a Providence acquaintance who worked in the Company's Rhode Island office. Blanding received the job offer by mail from the Company's New York office, along with instructions to go to the N.W. Hasten Company's offices in Portland. Trial transcript, Record on Appeal, *People v. Bauman*, 155 A.D. 935 (N.Y. App. Div. 1913) (Trial before the Court of Special Sessions on December 16, 1912), New York State Library (hereafter NYSL).

any effort to shop around for the best possible loan terms; she only dealt with N.W. Hasten Company). Two days after Doherty visited the Chesterkirk offices in New York City, Blanding executed a note on behalf of Doherty promising to repay \$45 to the N.W. Hasten Company. From N. W. Hasten she received \$37, which she mailed to Doherty, minus the cost of the money order. Doherty received a money order for \$36.85, which was further reduced by Chesterkirk's \$2 brokerage fee.<sup>27</sup>

April 3—the date Doherty's payment was due—came and went, but Doherty did not repay the loan. On or close to April 21, Doherty's employer, the Erie Railroad, received a demand that the railroad pay the sum of \$60.50 out of Doherty's wages to make good on the debt. The demand letter was accompanied by a copy of a wage assignment executed by Doherty's attorney-in-fact, Stella Blanding, along with a list of legal citations concerning the "absolute right" of every employee to assign his wages. (This was included, it seems, just in case Doherty's employer thought of contacting a lawyer). When Erie refused the demand, the lender sued the railroad for the amount owed.<sup>28</sup>

### *Mary Lafferty*

By July 1903, Mary Lafferty was out of options. In May, Lafferty and her husband, John, along with their two children, had been evicted from their apartment only two months after moving there. They had paid half a month's rent and then had fallen behind. Soon, the insurance agent and other creditors came calling. After being put out of their apartment and without money for a new deposit, the family moved in with Lafferty's parents and three younger siblings. Tensions ran high as space and resources were stretched to the limit. A month later, Lafferty's husband, a waiter, left for work and failed to return. Without any means of supporting her family, Lafferty and the children leaned on her mother and brother.<sup>29</sup>

27. Salary loans generally ranged in size from \$10 to \$40. Irving S. Michelman, *Consumer Finance: A Case History in American Business* (New York: F. Fell, 1966), 78.

28. Record on Appeal, *Thompson v. Erie Railroad Co.*, 207 N.Y. 171 (1912), Box 553, Vol. 127, Series J2002-82A, NYSA. In June, when a collector from the lender called at Doherty's office, Doherty offered to pay \$50 to satisfy the debt. The offer was refused. *Ibid.*

29. This narrative has been constructed from the documents in the New York Charity Organization Society's case file R619. The names of the family members, neighbors, and friends involved in each of the New York Charity Organization Society's cases cited in this study have been changed to protect their privacy. All citations within these records are to the Society's case notes, unless otherwise indicated. R619 Folder, Box 265, Community Service Society Collection, Rare Book & Manuscript Library, Columbia University in the City of New York (hereafter CSSC).



The family budget, however, was already past the breaking point. Lafferty's mother, Sarah Boyle, did not earn enough to cover the rent, much less feed seven people, from her job as a janitor in the Bronx apartment building where they lived. To make ends meet, Boyle scraped together \$2–\$3 per week doing odd jobs for the building residents. One of her sons, George, worked at a dry goods store for \$6 a week. Her husband, Frank, drank heavily and was not a reliable earner. By early July, Lafferty had pawned everything of value that she owned. She had tried and failed to obtain relief from her local Catholic parish. To compound her problems, her daughter, Florence, became ill. There was no food in the house. Lafferty turned to the New York Department of Public Charities for assistance, who referred her to the New York Charity Organization Society.<sup>30</sup>

The family would become well known to the Society in the coming months. Lafferty had not previously applied for assistance, but the Boyles had a record with the agency. Like many working-class families, the Boyles had been involved from time to time with various organizations and public institutions for the poor, including the city facilities on Blackwell's Island and the Mount Loretto home for destitute children on Staten Island. Frank Boyle may have become known to the Society through its antimedicancy work with the New York Police Department's "vagrancy squad," which arrested vagrants, beggars, and swindlers. Frank Boyle was committed for vagrancy in December 1902.<sup>31</sup>

After the family's immediate need for food was met by 75 in relief from the Society, Lafferty enlisted the Society's help in locating her husband. He "was always a good husband," she explained, but had "become tired" of assisting her parents and brothers. On her own initiative,

30. The building was located on 174th Street in the Bronx. The Society records refer to this parish as "R.C. Church 'Tremont.'" This appears to refer to St. Joseph's Roman Catholic Church, built in 1902 on Bathgate Avenue in the Bronx, just north of East Tremont Avenue. Lafferty told the Society that she was denied aid by the church because she married a Protestant. R619 Folder, Box 265, CSSC.

31. Two of Boyle's children had been committed to an institution for destitute boys on Mount Loretto, Staten Island run by the Mission of the Immaculate Virgin for the Protection of Homeless and Destitute Children. Blackwell's Island (since renamed Roosevelt Island) housed an almshouse, penitentiary, workhouse, and hospital for the destitute. *New York Charities Directory* (New York: The Knickerbocker Press, 1903), 105, 283, 289–90. On the Society's antimedicancy work, see Charity Organization Society of the City of New York, *Twenty-First Annual Report* (New York: Evening Post Printing House, 1903), 55. Frank Boyle may also have been committed "on confession," or voluntarily, so as to secure treatment at the Blackwell's Island Hospital. On commitment "on confession," see William W. Sanger, *The History of Prostitution* (New York: Medical Publishing Co., 1919), 634.

Lafferty wrote to the police chiefs of Montreal and Quebec, where she believed her husband may have fled, for information on his whereabouts. On her urging, an agent of the Society's Bronx District office wrote to the police in Boston. Despite these attempts, John Lafferty was not found. In mid-July, Mary Lafferty's brother sent word of a job for her at a hotel in Saratoga, New York, but she decided to remain in the city in the hope that her husband would write to her.

By early August, Lafferty conceded that her husband would not return home and had run out of leads. Upon request, she obtained a loan from the Society of \$2.50 to cover the cost of her chambermaid's uniform and passage from Troy to Saratoga. Sadly, Saratoga proved to be another disappointment. Upon arrival, she learned that her brother, "like all the rest of them," had misled her. He had lost all of his money on the horse races and planned to leave for Connecticut the next day. He had secured neither job nor housing for her, and she was forced to go in search of both. If she had not lost her return ticket to New York, she would have left immediately. Instead, she found a hotel job that paid less than \$1 a week.

With some difficulty, Mary Lafferty repaid the \$2.50 borrowed from the Society, although not as promptly as promised. Along with her profuse apologies for the delay in repayment, she sent word to the Society asking whether there had been any news of her husband's whereabouts. She asked the Society agent to write to the police chief of Newport, Rhode Island for information. (This attempt was unsuccessful). She also shared news from a waiter recently arrived in Saratoga from Connecticut, who reported spotting her husband at a cafe in Hartford. Lafferty asked the Society agent to pay a visit to her parents, whose annoyance at having to care for her children in their home had escalated to threats that they would not keep the children any longer if she did not send money soon.

By September, Lafferty was back in New York, where she again enlisted the Society's help in finding her husband. She cajoled the Society agent into interviewing a few waiters and a friend of her husband on the suspicion that they might have information concerning his whereabouts. Meanwhile, she found work as a saleswoman at R.H. Macy & Co. The Society's further investigations turned up nothing. By December, Lafferty was discouraged. She swore that if her husband did not appear by Christmas, or "or at least remember his little children on that day," then she would be "through with him forever."

Christmas passed without any word. Five days later, however, a waiter at the Vanderbilt Hotel disclosed that John Lafferty was alive and well, living in Hartford. Armed with this news and a loan of \$4 for carfare from the Society, Lafferty set out the next day for Hartford to recover her husband.

According to Mary Lafferty, her husband, who was living under an assumed name, was “delighted to see her” when she knocked on his boarding house room door the following evening. She returned the \$4 loan a week later, when she returned briefly to her job at Macy’s while waiting for their rooms in Hartford to be prepared. The Laffertys expressed their sincere gratitude to the Society for its assistance and interest in their case and suggested that they had both learned a “good lesson.” The Society closed their case a few months later. The “cause of need” on the file was marked “Disregard of Family Ties” and “Lack of Judgement.”

## II. Managing Money on the Margins: The Need for Borrowing

As these case studies illustrate, borrowing and lending played a vital role in the everyday lives of the urban working class in turn-of-the-century American cities. Families and individuals were enmeshed in a web of formal and informal credit relationships with relatives, local merchants, landlords, moneylenders, and charitable organizations. Within the span of a year, the Laffertys borrowed from family members, organized charity, their landlord, and a pawnbroker. Yet, borrowers did not create, negotiate, or terminate these relationships separately from all others. Like working, saving, or buying insurance, borrowing was just one of many survival strategies.

Few poor households could get by on a single source of income. Households cobbled together enough to survive the week from a variety of sources, which often varied from week to week. Wages were an important part of this equation. To avoid dependence on charity, friends, family members, or borrowing, families generally required at least one wage earner with steady employment. At the same time, reliance on a single wage earner was risky, given the low wages of many working-class jobs and the frequency of job loss because of poor performance, injury, or lack of work. A worker might also be put out of work because of a union strike. The most stable households, such as the Dohertys, had two steady wage earners who both worked in relatively high-paying jobs. As a result of this income, the Dohertys did not need to supplement their income through charity or the wages of the oldest or youngest household members.<sup>32</sup>

32. More, *Wage-Earners' Budgets*, 83. In January 1913, John Lafferty, a waiter, again appealed to the Society for aid because the cooks and kitchen men at his restaurant were out on strike, leaving the waiters without any work. Another borrower, employed as a railroad foreman at a good monthly salary by the O'Rourke Engineering & Construction Company, was out of work for more than 6 months because of a strike in 1903. R624 Folder, Box 265, CSSC. Another family that appealed to the Society for help in April 1907 reported that the father

In contrast, households without the steady income of a single breadwinner, such as Mary Lafferty's parents, needed the income of both the female household head and the oldest child to support a family. Elizabeth York, a thirty-nine-year-old native-born New Yorker and mother of four who borrowed from the Charity Organization Society, relied on her daughters' wages, supplemented by unpredictable contributions from her husband, a carpenter, and her own earnings from occasional laundering, cleaning, and other domestic work. Working male household members usually earned more than their female counterparts, who often did poorly paid, unsteady domestic work. Janitress positions, such as that eventually secured by Elizabeth York, sometimes provided only enough to reduce or cover the monthly rent. Food, clothing, and other necessities could not be purchased without additional income.<sup>33</sup>

Monetary assistance from state or municipal sources is notably absent from most household budgets. By 1900, New York City had done away with "outdoor" poor relief, public funds disbursed directly by the government to the poor living outside institutional settings. The New Deal era social welfare programs did not yet exist and mothers' pensions would not be instituted in New York State until 1915, over the vigorous objections of private charitable organizations including the New York Charity Organization Society. State assistance was provided through institutions such as municipal clinics, almshouses, and hospitals; public funds were provided to some privately run institutions for the care of delinquent children. Families seeking public assistance had a difficult choice: keep the family together and potentially forgo help, or allow the household to be broken up by the institutionalization of its members. Mary Lafferty struggled with this choice many times, although she was able for the most part to avoid commitment of her children to public facilities.<sup>34</sup>

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and principal wage earner, a painter, had lost income and been forced to perform odd jobs while the union was out on strike. In December, the painters' union again went on strike, but the man continued working under protest of the union. R709 Folder, Box 269, CSSC. Industrial accidents did not play a role in any of the household financial crises that precipitated borrowing in the cases presented here. Accidental injury and death, however, were realities of working life for many Americans and, in the era before worker's compensation systems, often financially devastating. On the industrial-accident crisis at the turn of the last century and its impact on American accident law, see John Fabian Witt, *The Accidental Republic: Crippled Workingmen, Destitute Widows, and the Remaking of American Law* (Cambridge, MA: Harvard University Press, 2004).

33. The York narrative has been constructed from the documents in the New York Charity Organization Society's case file R701. R701 Folder, Box 268, CSSC.

34. On the abolition of outdoor relief see *Proceedings of the New York State Conference of Charities and Correction*, vol. 12 (Albany: J.B. Lyon Company, 1911), 64. On organized

Children were alternately the cause and the cure for financial hardship. All of the borrowing households in this study included three or more children, which is more or less in line with the average household size nationwide (4.8 persons). Many, such as Russian immigrant Anna Gruzinsky, who borrowed money from the Charity Organization Society beginning in 1904, lost children in their infancy. In this period, roughly one to two infants out of every ten born in New York City died before reaching the age of one year. Children who survived required food, medical care, and, often, if both parents worked outside the home, childcare. Working mothers, such as Mary Lafferty and Anna Gruzinsky, relied upon family members or charitable organizations to watch their children. A sick child could mean more medical expenses and job loss if time away from work was required to obtain medical care. Once children reached adolescence, however, they could add their wages to the household's income. Unmarried working daughters, like their fathers, were expected to turn over their pay envelopes to their mothers on payday.<sup>35</sup>

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charity's opposition to public outdoor relief, see Katz, *Poverty and Policy in American History*, 191. Poor relief in New York City was terminated in two phases. Cash relief to the poor stopped in the 1870s and distribution of coal to the poor was terminated in 1898. For a detailed analysis of the forces at work behind these policy changes, see Adonica Yen-Mui Lui, "Party Machines, State Structure, And Social Policies: The Abolition of Public Outdoor Relief in New York City, 1874–1898" (PhD diss., Harvard University, 1993). The New York State mothers' pensions legislation was passed as Chapter 228 of the Laws of 1915. For a history of the mothers' pension movement nationwide, see Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, MA: Harvard University Press, 1992). In Brooklyn, after the abolition of outdoor poor relief and before the city's consolidation into Greater New York in 1898, the city government distributed public funds among private charitable organizations to provide relief for the poor. "New York Charities In Conference," *The Survey* (May 25, 1912): 325–27. New York City ceased this practice in 1898, but continued to provide public funds to some institutions for the care of delinquent children. "Public Aid Through Private Organizations," *The Survey* (May 25, 1912): 327–28. The Lafferty household was referred to the Charity Organization Society again in January 1906 after the Bureau of Dependent Children received an application for commitment of three of the children. Later that year, Mary Lafferty again considered breaking up the family. She explained to the Society that she was not earning enough at Macy's to support the children and "thinks she will have to place the oldest boy in an institution." R619 Folder, Box 265, CSSC.

35. For statistics on household size, see Frances E. Kobrin, "The Fall in Household Size and the Rise of the Primary Individual in the United States," *Demography* 13 (1976): 129. The average household size in Manhattan in 1900 may have been slightly lower, at 4.5 persons per household. This estimate is derived from census data on numbers of private families and total persons in private families for New York County, New York in 1900. Social Explorer, [www.socialexplorer.com](http://www.socialexplorer.com) (February 20, 2009). For case notes on the Gruzinsky family, see R649 Folder, Box 266, CSSC. On pay envelopes, see Kathy Peiss, *Cheap*

For women with children, desertion was also a concern. Male household heads, however, did not always leave for good. Like John Lafferty, husbands often returned home after weeks or months of separation. Meanwhile, deserted wives struggled with whether they should pursue their husbands' return and monetary support through legal action. John Lafferty deserted his family multiple times during the course of their involvement with the Charity Organization Society. Slightly less than two years after the family reunited and moved to Hartford, John Lafferty went out to work in the morning and did not come back that evening or the following day. Mary Lafferty and her children returned to New York and moved back in with her mother. Mary Lafferty eventually tracked him down in Baltimore in August 1906, where he "begged her to return to him." She was conflicted. As she explained to the Society, she did "not know whether she ought to return to him or not, as she feels she cannot trust him, but she is very much discouraged trying to support herself and the three children; she is still working at Macy's earning \$7. a week." The Laffertys eventually reunited but, four years later, Mary Lafferty again suspected that her husband was lying to her about his earnings and was putting money aside so that he could "run away again." John Lafferty deserted the family again in January of 1914.<sup>36</sup>

Much like husbands, household expenses were unpredictable and might vary from week to week. Housing, medical expenses, and burial costs were the most common expenses that families had to manage on short notice. An eviction notice from the landlord often caused a struggling family to seek outside assistance, through charity or a loan, to pay overdue rent or relocate. Many poor families moved frequently, although often within the same neighborhood. The Lafferty family had fifteen different addresses on record with the Society between 1903 and 1918, almost all in the Bronx. Medicine and doctors' bills could be a considerable expense. As Harry Roland, a thirty-three-year-old railroad track engineer and father of a one-year-old son, wrote to explain his inability to make any payment on his loan from the Society: "On Feby 20th my child took sick, it was

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*Amusements: Working Women and Leisure in New York City, 1880 to 1920* (Philadelphia: Temple University Press, 1986), 70–71; and Elizabeth Ewen, *Immigrant Women in the Land of Dollars: Life and Culture on the Lower East Side, 1890–1925* (New York: Monthly Review Press, 1985), 104–5.

36. R619 Folder, Box 265, CSSC. On the creation of an antidesertion system in New York and the involvement of the Charity Organization Society in these efforts, see Anna R. Igra, *Wives Without Husbands: Marriage, Desertion, & Welfare in New York, 1900–1935* (Chapel Hill: University of North Carolina Press, 2007), 28–44; Frank Dekker Watson, *The Charity Organization Movement in the United States* (New York: The MacMillan Company, 1922), 319–23.

necessary to have the Doctor once a day at two (200) dollars per visit and first visit cost 300 that made a total of fifteen (1500) dollars. Medicines cost on an average of fifty cents per day\_ total \$300 extras that had to be got say \$200 total – \$2000 and all paid and one half of this month's rent, therefore if sickness had not come to my house, it was my intention to send you \$1500.”<sup>37</sup>

Even when medicine failed and a family member died, the bills kept coming. Families without burial insurance would go into debt to provide an appropriate funeral for a loved one. For this reason, many poor families insisted, often against the wishes of charity workers, on maintaining insurance policies to cover family burial costs. In some cases, the importance of funeral displays led families to pay insurance premiums rather than buying food, clothing, or fuel. Insurance was so common that the Charity Organization Society included a blank on its intake form for “Insurance, Lodge or Benefit Society.” Mary Lafferty used her insurance agent as a reference on her employment application to work at Macy's, as he had been visiting the family for more than ten years.<sup>38</sup>

Savings could also blunt the impact of emergency expenses, but few households were able to put enough money aside. Households that were able to save might weather small emergencies, but still experienced shortfalls when expenses piled up. Anna Gruzinsky had saved more than \$30 by June 1906, but exhausted these savings and more after her husband purchased tools and the family moved. A loan from the Society bridged the gap between the household's expenses and resources. Harry Roland explained to the Society that he had saved \$750 before he lost several months of wages because of a strike. These savings were exhausted over the course of six months from the cost of supporting the Roland family and his wife's elderly parents.<sup>39</sup>

Families in need often looked first to local sources of credit. Family, neighbors, and friends could be sources of relief or informal loans, although ongoing assistance or unpaid loans could strain personal and familial relationships. Parents might assist their adult children with child-care, whereas the adult children, such as Mary Lafferty before her husband deserted her, might support their elderly parents financially. Neighbors and

37. Roland to Mrs. C.L. Reeds (C.O.S.), March 9, 1904, R624 Folder, Box 265, CSSC.

38. Anna Gruzinsky, for example, borrowed \$5 from her children's nursery in order to pay for her baby's funeral. R649 Folder, Box 266, CSSC (Gruzinsky). On debts for weddings and funerals, see Ewen, *Immigrant Women in the Land of Dollars*, 238. For examples of intake forms, see, e.g., R701 Folder, Box 268, CSSC. On Mary Lafferty, see R619 Folder, Box 265, CSSC.

39. R649 Folder, Box 266, CSSC (Gruzinsky); R624 Folder, Box 265, CSSC (Roland).

friends frequently assisted one another during difficult times, with the expectation that the favor would create a reciprocal obligation. Anna Gruzinsky's neighbor paid a visit to the Charity Organization Society on her behalf, to explain that the neighbors would take up a collection for the family if the Society committed to pay one month's rent. Author Michael Gold, in his autobiographical novel about Jewish life on New York's Lower East Side, *Jews Without Money*, describes how his mother would take up a collection in their building if a family was in danger of being evicted. Borrowing privileges could, of course, be abused; John Lafferty borrowed \$9 from a friend with whom the Lafferty family was living on the day he disappeared in 1914, saying he was going to get new rooms. Instead, he skipped with the money.<sup>40</sup>

Local merchants were also an important source of informal credit, sometimes provided voluntarily and sometimes unwillingly, such as when customers failed to pay their bills. The landlord, the corner grocer, the insurance salesman, the baker, the ice man, and the moving company were all potential creditors. Merchants allowed customers to purchase consumer goods "on time" or on the "installment plan," whereby the customer would take possession of the goods and gradually pay off the purchase price through regular payment installments. Clothing, sewing machines, furniture, and even medical care could be financed in this way. The number of creditors who visited the Lafferty and York families suggests that a number of local merchants and businesspeople provided them with credit.<sup>41</sup>

There was no uniform collection process for unpaid debts owed to local merchants. Items purchased "on time" could be repossessed if the customer missed a payment. The Laffertys had their furniture seized by the seller, the

40. Jane Addams, in Chicago, also observed the "kindness of the poor to each other" in sharing or giving food and money to one another. Jane Addams, *Twenty Years at Hull-House* (New York: The Macmillan Company, 1910), 162–63. According to a family friend, prior to her husband's desertion, Mary Lafferty "sacrificed her husband in order to aid her family." This was a purported cause of John Lafferty's desertion. R619 Folder, Box 265, CSSC. For a discussion of the "gift economy" among Italian immigrants on the Lower East Side in this period, see William Q. Boelhower, "Pushcart Economics: The Italians in New York," in *Public Space, Private Lives: Race, Gender, Class, and Citizenship in New York, 1890–1929*, ed. Anna Scacchi and William Boelhower (Amsterdam: VU University Press, 2004), 97–110. On modern networks created among the urban poor by informal borrowing and lending, or "swapping," see Carol B. Stack, *All Our Kin: Strategies for Survival in a Black Community* (New York: Basic Books, 1997), 32–44. On the Gruzinsky case, see R649 Folder, Box 266, CSSC. Michael Gold, *Jews Without Money* (1930; repr. New York: Carroll & Graf Publishers, 2004), 161–62.

41. The financing of sewing machines on the installment plan was sufficiently common that the Society wrote to the Singer Sewing Machine Company in order to obtain a missing borrower's address. R717 Folder, Box 269, CSSC. Abortions could also be purchased on the installment plan. Ewen, *Immigrant Women in the Land of Dollars*, 133.



Duetch Brothers Company, after the family fell behind on its payments. Grocers and small merchants seem not to have made use of the legal system to recover unpaid debts, unlike landlords. An individual family could rack up a large debt to the landlord, but the landlord had recourse to the courts to evict nonpaying tenants. Legal action and eviction were often poor methods to collect payment, however. Eviction allowed the landlord to place a new, paying household in the rented rooms, but usually not to collect back rent. A landlord might be better off allowing a family to catch up on unpaid rent, rather than pursue a court case to terminate its tenancy.<sup>42</sup>

Private moneylenders and the Charity Organization Society were two additional sources of credit for working-class New Yorkers. Needy families often looked to private lenders before contacting charity. Among the almost two hundred loans that the New York Charity Organization Society made from its Self-Support Loan Fund between 1903 and 1917, more than 10 percent were to pay off previously contracted debts to private moneylenders. Nonetheless, many roads led back to the Charity Organization Society. The Laffertys, the Gruzinskys, and the Yorks all first approached other organizations, which referred them to the Society. The Russell Sage Foundation also referred loan shark victims to the Society for help paying off their debts.<sup>43</sup>

The Society viewed its lending as the antithesis of loan sharking. It charged no interest and, therefore, avoided the greatest evil of the loan shark: usury. Loan sharks and philanthropic lenders engaged in different lending practices and served distinct but overlapping sections of the working-class credit market. However, even though the Society painted private moneylenders as enemies of its cause, loan sharks and scientific charity reformers were linked through their relationships with poor borrowers and in their shared distaste for government involvement in the private realm of working-class finances.

42. R619 Folder, Box 265, CSSC (Lafferty). On the difficulties of landlords with poor tenants, Katz, *Improving Poor People*, 166.

43. Beverly Ann Stadum, *Poor Women and Their Families: Hard Working Charity Cases, 1900–1930* (Albany: State University of New York Press, 1992), xix. The Society made 190 loans through the Fund, of which 25 or more were for the purpose of paying off other debts. Self-Support Loan Fund 1907–11 & Self-Support Loan Fund 1911–17 Folders, Box 159, CSSC. For borrowers referred to the Society by the Russell Sage Foundation, see Arthur Ham to Mary Opperman, December 13, 1910, “New York - S.L., 1911–1913 Loan Shark Victims [2]” Folder, box 39, RSF LOC; Arthur Ham to W.F. Persons, September 8, 1910, “New York - S.L., 1911–1913 Loan Shark Victims [3]” Folder, box 39, *ibid.*

### III. The (Credit) Worthy Poor: Borrowing from Scientific Charity

Historians of Progressive-era poverty and charity have largely overlooked organized charity's campaign to reform small-scale lending and to provide loans to the poor. The literature describes charities dispensing relief, either cash or in-kind, but not making loans. In New York, however, organized charity both provided credit and supported the campaign to combat the loan shark evil. Charitable organizations across the country, including the New York Society and the New York Association for Improving the Condition of the Poor, made loans to poor borrowers. As much as 10 percent of all relief dispensed by the New York Charity Organization Society was provided in the form of credit. These credit relationships were not ancillary to the goals of organized charity, but were fundamental to its relief mission. Philanthropic or "remedial" loans allowed charity workers to exert a greater degree of control over poor people's finances and to keep charity recipients from frittering away large sums of money on excessive interest payments. (Relief, after all, did considerably less good if a large portion of the household's income went to paying usurious interest to a loan shark.)<sup>44</sup>

The Society's move into the lending business was rooted in its longstanding anxiety about the relationship between charity and the causes of poverty and pauperism. Organized charity leaders believed that a poor person could become "pauperized"—dependent, idle, and lacking self-respect—as the result of unscientific, sentimental administration of relief. The Society therefore charged "friendly visitors," mostly middle-class

44. As historian Michael Katz has observed, "the role of credit as a form of relief never has received the attention it deserves from students of poverty." Michael B. Katz, *In the Shadow of the Poorhouse: A Social History of Welfare in America* (New York: BasicBooks, 1986), 9. A few sources mention the existence of remedial loan societies such as the New York Charity Organization Society's Provident Loan Society. This study is the first to explore lending by charities directly to poor families, as an alternative to, or in addition to, monetary or in-kind relief. The Association for Improving the Condition of the Poor also made loans, although the number is unclear. Secretary of the Investigation Bureau to Frank Persons, September 21, 1914, Self-Support Loan Fund 1911–17 Folder, Box 159, CSSC. Most remedial lending came into existence through the efforts of organized charity. Frank Tucker, "The Social Need for Remedial Loan Associations," in *Proceedings of the National Federation of Remedial Loan Associations* (Baltimore: Lucas Brothers, Inc., 1909), 22–27. On the amount and type of relief disbursed by the Society, see Lilian Brandt, *The Charity Organization Society of the City of New York, 1882–1907* (New York: B.H. Tyrrel, 1907), 102. As sociologist Viviana Zelizer has argued, the provision of cash relief, rather than merely in-kind assistance, was also appealing to social reformers because it provided an opportunity for reformers to educate the poor to be responsible consumers while allowing poor people to participate, with supervision, in the consumer economy. Viviana A. Zelizer, *The Social Meaning of Money* (New York: Basic Books, 1994), 146–47.

female volunteers who dropped in on poor families that requested assistance, with separating the “worthy” from the “unworthy” poor.<sup>45</sup> Loans, reformers believed, were a form of relief that was less likely than charity to “pauperize” recipients. Lending to the poor avoided the potentially negative effects of charity, in favor of a contractual bargain between market participants. As one lending reformer explained, lending “has not the pauperizing effect of mere charitable relief; it gives the borrower an opportunity to get himself out of his difficulties without losing his independent self-respect.”<sup>46</sup>

The New York Society's lending began with the creation of the Provident Loan Society, a philanthropic pawnshop based on European antecedents, which was set up in 1894 to provide poor borrowers with an alternative to private pawnshops.<sup>47</sup> Other charity organization societies also set up pawnshops or other types of “remedial loan societies,” which banded together in 1909 to form the National Federation of Remedial

45. From its founding, organized charity vocally opposed indiscriminate almsgiving. On the founding principles of scientific charity, see Watson, *The Charity Organization Movement in the United States*, 151. On the widening gap between principles and practice of charity organization societies in the early twentieth century, see Katz, *In the Shadow of the Poorhouse*, 83–84. The first American charity organization society, modeled on the London Charity Organization Society, appeared in Buffalo in 1877 and was quickly followed by the founding of similar societies in other major American cities. The scientific charity leaders were not the first social reformers to express anxiety about “pauperism” and charity breeding dependence. Such concerns were also prevalent among urban reformers in the nineteenth century. See, for example, Bruce Dorsey, *Reforming Men and Women: Gender in the Antebellum City* (Ithaca, NY: Cornell University Press, 2002), 50–89.

46. For quote, see “The Loan Shark Campaign” by Malcolm W. Davis (reprinted from the *NY Evening Post* by the Russell Sage Foundation), April 11, 1914, “New York - S.L., Summaries Loan Shark Campaign” Folder, box 41, RSF LOC. Jacob Gimbel of Gimbel Brothers department store similarly stated, of loans made by his firm to its employees: “We are not alm-givers—we seek to strengthen manhood and womanhood, not to make it ivy-like. Our salary-loans are to be considered as business propositions solely, wherein we are pleased to count brain and brawn and loyalty as mighty good collateral.” Draft remarks by Mr. Gimbel, (likely May 1911), “New York - S.L., 1911 General” Folder, box 38, *ibid*. Historian Amy Stanley has observed a similar dynamic at work in nineteenth-century urban reformers' support of antivagrancy laws, which prevented the poor from subsisting outside of the “matrix of exchange relations.” Amy Dru Stanley, *From Bondage to Contract: Wage Labor, Marriage, and the Market in the Age of Slave Emancipation* (Cambridge: Cambridge University Press, 1998), 98–137.

47. The Provident Loan Society continues to make small loans in New York City. For a history of its early years, see Provident Loan Society of New York, *The Provident Loan Society of New York: Twenty-Fifth Anniversary, 1894–1919* (New York: The Society, 1919). On the formation of other societies, see Calder, *Financing the American Dream*, 124–35; John P. Caskey, *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor* (New York: Russell Sage Foundation, 1994), 23–26; and Watson, *The Charity Organization Movement in the United States*, 227–29.

Loan Associations. In addition to the pawnshop, which was run as a separate business loosely affiliated with the Society, the Society also made interest-free loans through its Self-Support Loan Fund and other general relief funds. The Society made approximately 190 loans to individual borrowers through the Self-Support Loan Fund between 1903 and 1917. Local offices also gave loans rather than grants. Of the \$47,863 disbursed by the Society between March and September 1907, more than 10 percent was for loans.<sup>48</sup>

In addition to making loans directly, the Society assisted Olivia Sage, widow of the financier Russell Sage, to screen the many “begging letters” that she received. These requests highlighted the need for alternative sources of credit for the working class. So many requests were from the victims of loan sharks that W. Frank Persons, assistant secretary of the Society, remarked on “the apparent great demand for an organized business, which would take care of this obvious need in the community, under regulated and decent auspices.” In 1907, the president of the Society assisted Olivia Sage in creating the Russell Sage Foundation, a general-purpose foundation established for “the improvement of social and living conditions in the United States.” Through its Division of Remedial Loans, the Sage Foundation became a leader in the national campaign against loan sharks. The Foundation drafted and lobbied for passage of a model Uniform Small Loan Law, which proposed a 3.5 percent monthly interest rate for small loans, well above the 6 percent annual rate allowed under New York law. By raising the legal interest rate high enough to make small-scale lending profitable, the Foundation hoped to encourage legitimate businesspeople to enter the market, increase competition, and thereby drive the loan sharks out of business. The head of the Division, Arthur Ham, also served as the secretary of the National Federation of Remedial Loan Associations.<sup>49</sup>

48. On the National Federation of Remedial Loan Associations, see John M. Glenn, Lilian Brandt, and F. Emerson Andrews, *Russell Sage Foundation, 1907–1946*, vol. 1 (New York: Russell Sage Foundation, 1947), 137. The Self-Support Loan Fund was created through a donation by Kuhn, Loeb & Co, a New York investment bank. The Society made reports on the use of the fund to Felix Warburg, a partner at Kuhn, Loeb & Co. The idea for this donation may have come from Jacob Schiff, a vice president of the Charity Organization Society, partner in Kuhn, Loeb & Co. and the New York Hebrew Free Loan Society’s biggest donor. Shelly Tenenbaum, “Culture and Context: The Emergence of Hebrew Free Loan Societies in the United States,” *Social Science History* 13 (1989): 227–28. The fund is briefly referenced in Brandt, *The Charity Organization Society of the City of New York, 1882–1907*, 101. On the Society’s disbursements, see *ibid.*, 102.

49. On the Society’s screening of begging letters, see Ruth Crocker, *Mrs. Russell Sage: Women’s Activism and Philanthropy in Gilded Age and Progressive Era America* (Bloomington: Indiana University Press, 2006), 205–11. For the Sage Foundation’s motto

Obtaining a loan from the Society was not significantly different from obtaining cash or in-kind relief. Investigation was always the first step. The Society interviewed the applicant to get information on the family composition, housing situation, and religious and national background. They also gathered information on other potential sources of relief, including relatives, insurance policies, and ties to other community organizations that might provide assistance. Applicants had little expectation of privacy in this process. The same networks upon which families relied for support could be turned against them in the investigation process. Family members, religious organizations, other charities, doctors, hospitals, neighbors, former employers, and local merchants all cooperated with the Society; only one out of dozens of files contained a refusal to go along with the Society's investigation.<sup>50</sup>

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and the Persons quote, see Glenn, Brandt, and Andrews, *Russell Sage Foundation, 1907–1946*, 1:11, 66 n.1. On the Foundation's leadership in the anti-loan shark campaign, see Michelman, *Consumer Finance*, 76; Glenn, Brandt, and Andrews, *Russell Sage Foundation, 1907–1946*, 1:136–51. On the involvement of the Sage Foundation in drafting and securing the passage of the Uniform Small Loan Law in several states, see Elisabeth Anderson, "Experts, Ideas, and Policy Change: The Russell Sage Foundation and Small Loan Reform, 1909–1941," *Theory and Society* 37 (2008): 271–310; and Calder, *Financing the American Dream*, 111–55. Although anti-loan shark reformers were aware that economic regulations could be invalidated on liberty of contract grounds, there is no evidence that this awareness motivated reformers to reject more rigid regulation as the means to eliminate the loan shark problem. Ansley Wilcox to Governor John A. Dix (New York), June 5, 1911, "New York - S.L., 1911 General" Folder, box 38, RSF LOC (expressing opinion that law prohibiting salary loans would be an unconstitutional interference with "liberty of contract"); Walter Heilborn to William C. Osborne, June 3, 1911, *ibid*. Reformers generally explained the reasoning behind their proposals in social and economic, rather than legal, terms. When they did mention constitutional concerns, they were almost as an afterthought.

50. For a satirical commentary on the behavior of organized charity visitors, see Florence Converse, "Company Manners," *The Atlantic Monthly*, January 1898, 130–36. Converse's short story describes the efforts of the young daughter of an organized charity recipient to "behave like a lady" while visiting the home of a friendly visitor. The daughter proceeds to interrogate the family with questions that she has heard charity workers ask of her own mother, such as "How many members of your family are earning money at present?", "Has your husband any bad habits?", and "How many people sleep in this room?" In 1886, poet John Boyle O'Reilly penned a similar critique in verse: "[t]he organized charity, scrimped and iced, / In the name of cautious, statistical Christ." John Boyle O'Reilly, *In Bohemia* (Boston: The Pilot Publishing Company, 1886), 15. In response to a request by the Society to verify the Laffertys' marriage, the Reverend Cusack of Saint Stephen's Roman Catholic Church replied, "it is a rule of the parish that no information of marriages be given to anyone but the parties to the contract or by their order." R619 Folder, Box 265, CSSC.

Families judged “deserving,” “honest,” “reliable,” “worthy,” “obliging,” “honorable” or “respectable” might receive aid. Others who, in the Society’s opinion, “should be self supporting” or “if left to themselves. . . will be able to manage,” were not helped. An applicant’s gratitude and worthiness were closely linked; a sense of entitlement to assistance was frowned upon. Visitors noted when a family member “was anything but appreciative,” “proved ungrateful for assistance,” or “seemed to expect a good deal more should be done.” Some borrowers were attuned to the Society’s expectations, and wisely tailored their behavior to meet them. Mary Lafferty repeatedly expressed how “grateful” she was for “all the attention and kindness shown her” and “for the interest taken by Society.” She also used the Society’s resources to further her own goals, which were to track down her husband and reunite her family. When she was later in need in 1908, however, she appealed first to the *New York Tribune* for aid in moving rather than to the Society.<sup>51</sup>

Most borrowers maintained a veneer of gratitude, but sometimes frustration and annoyance seeped out or exploded. Borrower Harry Roland wrote to the Society, objecting to their collection methods. “I was very much surprised,” he wrote, “to learn that you had visited certain people and told them about my indebtedness to you and that you wanted the money, and I hasten to assure you that no one wants to be out of debt quicker than the writer and I had every reason to believe that such would be the case before this, on or about the time you loaned me the sum of twenty five dollars I had to accept a temporary position at twelve dollars per week, it lasted until two (2) weeks ago last Saturday or Feby 19th.” According to the Society, the matriarch of this family was similarly “impertinent.” On one visit, she “shut the door without answering any further questions.” On another, she seemed “very much annoyed on seeing visitor, and tried to shut the door in her face. She pretended not to understand English, but visitor feels that she knows every word that is said. She began to mumble in broken English that her daughter could not pay the loan, and did not

51. On the importance of gratitude and the punishment of independence or lack of deference by the Society, see Katz, “The History of an Impudent Poor Woman in New York City from 1918 to 1923.” For the quoted visitor case notes, see R717 Folder, Box 269, CSSC (“was anything but appreciative”); R701 Folder, Box 268, CSSC (“proved ungrateful. . .”); R619 Folder, Box 265, CSSC (“seemed to expect. . .”). There has been considerable debate among historians concerning the intended purpose of poor relief. See, for example, Walter I. Trattner, ed., *Social Welfare or Social Control?: Some Historical Reflections on Regulating the Poor* (Knoxville: University of Tennessee Press, 1983). I do not attempt to rehash or resolve that debate here. Aid recipients’ use of the Society to structure their family relationships, by hunting down deserting husbands or forcing an idle husband to seek work, is noted in Dawn Greeley, “Beyond Benevolence: Gender, Class and the Development of Scientific Charity in New York City, 1882–1935” (PhD diss., State University of New York at Stony Brook, 1995), 307.

see why she is troubled.” The woman’s daughter, Harry Roland’s wife, was more open to the Society’s inquiries, but also had her limits. The visitor observed that she “became somewhat impatient, and seemed to be very unappreciative of agents efforts in her behalf” after the visitor again urged her to save something toward payment of the loan.<sup>52</sup>

Loans came with further supervision and instructions on how the assistance should be used. In 1910, Mary Lafferty received a loan from the Society for moving expenses, conditioned on her promise to visit the local tuberculosis clinic and send her son, Harold, to the municipal tuberculosis sanatorium in Otisville, New York. The Society agreed to provide another mother with milk and eggs every week, but only if used for her personal consumption. She was also instructed to walk “for a half an hour each fine day in the open air.” If she did not show improvement in her health in a month, relief would be discontinued as “useless.” Money for moving expenses was similarly refused if the Society did not approve of the rooms selected.<sup>53</sup>

If the Society suspected that a borrower was holding out or not making a genuine effort to repay, its collection tactics could be aggressive. The Roland family, which used insurance policies worth \$1168 as security for loan of \$25, asked the Society to return one of the policies, which matured on the insured’s seventy-fifth birthday. The Society refused to return “any of the insurance papers until family make some effort to return some of the money.” When the York family failed to repay their loan, the Society visitor, “[i]nformed Mr. Y. that he would be expected to repay loan, and if he did not do so voluntarily, [the Society] would make it as uncomfortable for him as possible.” These threats were mostly bark with no bite. There is no record of the Society garnishing borrowers’ wages, for example. The Society relied upon persuasion and guilt, pressing on the borrower’s sense of moral obligation. The assistant secretary of the Society wrote to one borrower: “Do you think it is quite a manly thing to utterly disregard the effort which others have made to assist you at a

52. Roland to Mrs. C.L. Reeds (C.O.S.), March 9, 1904, R624 Folder, Box 265, CSSC. Roland also took issue with the Society’s insistence that the family move. He wrote: “My family has not seen a well day since I left Washington Ave \_ You may get cheap places but the Doctor’s bill is much greater then the difference in rent, I was two (2) months in Stebbins Ave house, it cost me 500 per month for Doctor’s services, it cost me \$650 per ton of coal it cost me €30 per day for oil to heat the house besides my gas, when figured out, would it not have been better for me to pay the landlord the money you loaned me and kept my family well? I wanted to do so but you insisted upon me moving to a cheaper place, I done so, and I have pictured truthfully herein the results.” Ibid.

53. R619 Folder, Box 265, CSSC (Lafferty); R709 Folder, Box 269, CSSC (milk and eggs).

time when there was illness in your family and when, as you stated, there was no other place to which you could go to make application for help? Personally I am not only greatly surprised but greatly disappointed that you should have so betrayed my confidence.”<sup>54</sup>

The success of these collection methods depended upon the borrower’s sense of obligation. One borrower who was “anxious to pay her indebtedness,” offered to pay 50¢ per week out of the \$1.60 per week that the family had set aside for food. In contrast, Elizabeth York, who felt “little responsibility” about the loan owed to the Society, was largely immune to the Society’s collection methods.<sup>55</sup>

Private moneylenders had other means of exacting payment, although they also relied upon extralegal sanctions and borrowers’ desire to protect employment and reputation. However, unlike the Society’s lending operations, these transactions took place outside of the law or in its shadow.

#### **IV. Marginal Enterprises: Borrowing from Loan Sharks**

The business of lending small sums to working-class borrowers was not an invention of the early twentieth century. Pawnshops or “hock shops” had existed in America well prior to independence. Pawnshops remained practically the only source of credit for the working class in the antebellum period, until loans secured by a lien on movable property such as the borrower’s jewelry or furniture, known as “chattel loans,” became available after the Civil War. Commercial banks, however, “showed little interest in extending personal loans to low-income, high-risk working-class borrowers” and immigrant bankers, although they did loan small sums, usually assisted only personal acquaintances. Working-class borrowers in the early twentieth century had three for-profit sources for small loans: pawnbrokers, chattel loan companies, and salary lenders. Those with personal possessions to pledge could borrow from a pawnbroker or chattel lender. Those with a steady income could borrow against their future wages from a salary lender.<sup>56</sup>

54. R624 Folder, Box 265, CSSC (Roland); R701 Folder, Box 268, CSSC (York); R717 Folder, Box 269, CSSC (assistant secretary letter to borrower dated May 7, 1907).

55. R729 Folder, Box 270, CSSC (anxious borrower, whose total family weekly income was \$6); R701 Folder, Box 268, CSSC (York).

56. On pawning in early America, see Wendy A. Woloson, “In Hock: Pawning in Early America,” *Journal of the Early Republic* 27 (2007): 35–81. Woloson dates the earliest reference to pawning in America to 1657. *Ibid.*, 37. Pawnbrokers and chattel lenders both make loans secured by movable personal property. In the case of pawnshops, the collateral or “pledge” is a “live” pledge, meaning that it remains in the possession of the lender during the course of the loan. The borrower retains ownership, but not possession. In contrast,



Pawning was relatively straightforward, especially when compared with borrowing from a salary lender or chattel loan office. The loan could be completed in a matter of minutes. The pawnbroker would appraise the item to be pawned, write out a ticket for the item, and hand over the money. The collateral, which ranged from clothing to work tools to jewelry, would remain in the lender's possession until repayment. The size of the loan mostly depended upon how much the item could fetch at auction, should the borrower default. The borrower did not sign any documents; if a borrower failed to repay the loan after a certain period of time, the lender could sell the item, but had no recourse to the borrower's wages or other personal possessions.<sup>57</sup>

The ease of pawning made it an attractive form of credit. Both Mary Lafferty and Anna Gruzinsky pawned their most valuable possessions before turning to the Charity Organization Society for assistance. Indeed, some borrowers made a regular practice of pawning items that were not needed on a weekly basis. *A Tree Grows In Brooklyn*, Betty Smith's semi-autobiographical novel, vividly describes the Saturday pawning ritual in Williamsburg, Brooklyn in the first decades of the twentieth century: "About four o'clock the flats in the tenements ... came to life. ... Women came in with bulky hock-shop bundles. The man's Sunday suit was home again. On Monday, it would go back to the pawnbroker's for another week. The hock-shop prospered on the weekly interest money and the suit benefited by being brushed and hung away in camphor where the moths couldn't get at it. In on Monday, out on Saturday. Ten cents' interest paid to Uncle Timmy. That was the cycle."<sup>58</sup>

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chattel lenders do not take possession of the pledge during the course of the loan. As in the case of a home mortgage loan, the pledge is "dead," meaning that the borrower remains in possession. For more on "dead" and "live" pledges, see Lawrence M. Friedman, *A History of American Law*, 3rd ed. (New York: Simon and Schuster, 2005), 179. On the lack of lending by commercial banks, see Shergold, "The Loan Shark: The Small Loan Business in Early Twentieth-Century Pittsburgh," 199. The "generally informal and personal manner of making loans" employed by most immigrant banks is described in the 1911 Report of the Senate Immigration Commission. United States Senate, *Reports of the Immigration Commission: Immigrant Banks*, 61st Congress, 3rd Session, vol. 37, Senate Doc. 753 (1911), 245. For a history of immigrant banking, see Jared N. Day, "Credit, Capital and Community: Informal Banking in Immigrant Communities in the United States 1880-1924," *Financial History Review* 9, no. 1 (2002): 65-78. On sources of credit for the working class, see Ham, "A Year's Progress in Remedial Loan Work," 488. For a broad overview of the business practices of pawnshops, loan sharks and installment sellers in the early twentieth century, see Calder, *Financing the American Dream*, 42-58.

57. *Ibid.*, 47-48.

58. Betty Smith, *A Tree Grows in Brooklyn* (1943; repr. New York: Harper & Row, 1968), 26-27. The familiarity between borrower and pawnbroker was reflected in the language of

Borrowing from a loan shark was more complicated. Progressive-era loan sharks were not gangsters. Although they operated in the shadows, they did not threaten borrowers with broken kneecaps or sleeping with the fishes. Instead, they used law as a weapon, capitalizing upon loopholes and legal fictions, and turning courts' defense of borrowers' contractual "rights" to their own advantage, to extract payment from delinquent debtors. Loan sharks' business methods were shaped by law, if not always law abiding. John Doherty's transaction illustrates how borrowing from loan sharks worked, and the ways that law was used as a sword and a shield.<sup>59</sup>

Obtaining a salary or chattel loan was more elaborate than pawning, but less invasive of personal privacy than borrowing from organized charity. The borrower answered questions about past and present employment, wages, and other loans. The lender then investigated to confirm whether the borrower was a good credit risk. The rise of large corporate employers, with well-organized payroll departments, facilitated easy and efficient investigation of borrowers. A number of these large firms, however, would discharge an employee if a wage assignment was filed. Borrowers whose employers did not allow wage assignments were therefore particularly good credit risks because they would do anything to avoid the lender initiating collection efforts through their employer.<sup>60</sup>

Chattel and salary loans were not always approved. Borrowers might be turned down for having "too many loans," having "loans at other places," owing "bills in the neighborhood," or being "too poor." If approved, borrowers had to sign complicated documents to secure the loan, usually at

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the borrowers, who would sometimes refer to the pawnbroker as "uncle" or "my uncle." Caskey, *Fringe Banking*, 18.

59. Loan sharking did not become associated with racketeering and sinister criminal enterprise until the 1930s. Haller and Alviti, "Loansharking in American Cities." Most salary loan borrowers were married men, but women also borrowed. Indeed, some loan offices mailed out specialized solicitation letters to drum up business from salaried "[l]adies holding high class positions." Wassam, *The Salary Loan Business in New York City*, 25, 46–47.

60. One loan office manager noted that "many of the patrons of the shark, actually preferred the shark. They willingly paid his usurious rates rather than submit to the condescending treatment of their would-be benefactors. They valued their self-respect above what they might save by its forfeiture. They wanted to be treated as if they were paying for value received and not as if objects of charity." "Touching Upon and Appertaining to the Loan Shark" by R.W. Sharp, May 15, 1917, "New York - S.L., Summaries" Folder, box 41, RSF LOC. On a typical visit to a loan office and the credit risks of borrowers, see Calder, *Financing the American Dream*, 53–54. On corporate employers facilitating more efficient investigation of salary loan applicants, see Easterly, "Your Job Is Your Credit: Creating a Market for Loans to Salaried Employees in New York City, 1885–1920," 65–67. On employer discharge policies, see Glenn, Brandt, and Andrews, *Russell Sage Foundation, 1907–1946*, 1:140; and "Business Men Begin War on Loan Sharks," *New York Times*, May 19, 1911, 6.

sky-high rates of interest. These loan documents were sometimes missing key terms or were so dense and legalistic that they obscured the nature of the document. The power of attorney signed by Doherty is a prime example of such subterfuge.<sup>61</sup>

Borrowers were discouraged from reading the documents they signed. One study found that the “manner in which the papers are often arranged for signature makes the reading of them impossible. They are either so folded [] that their character is concealed or arranged under other papers so that the entire document is covered except for the space for the signature.” Borrowers who did inquire were met with the “firm assurance of the manager that the paper is of no practical value, that it is only a necessary form which must be carried out in order to make the transaction legal.” The borrowing experiences of Doherty and another borrower, Harry Powers, were eerily similar. Powers also did not read the papers that he signed at the loan office: “I didn’t look them over at all. I just simply signed where I was told to put my signature.” In May 1912, Powers, who earned \$20 per week working for a Manhattan printer, borrowed \$11.50 from Burt Brothers, a loan sharking operation near the intersection of Fifth Avenue and 15th Street, in exchange for the promise to repay the loan plus \$4.50 in fees and interest over the course of two months. Powers’ annual interest rate was also well above the legal rate in New York State.<sup>62</sup>

Loan sharks generally strove to keep out of the press and to shield themselves from public scrutiny. The Chesterkirk Company, from which John Doherty obtained his loan, employed a number of the tricks common among loan sharks in New York. First, the owners of Chesterkirk tried to conceal their identities. They operated the business under the trade name “R.C. Chesterkirk,” implying that the business was owned by someone named Chesterkirk. The real owner was the State Trading Corporation, another corporate mask. State Trading also owned another brokerage in New York City, which operated under the trade name “Walter Graham.” These corporate cloaks hid the three individual owners from open public scrutiny and kept their names out of the newspapers.<sup>63</sup>

61. For a sampling of reasons for refusing loans taken from the records of a loan company, see Wassam, *The Salary Loan Business in New York City*, 67, Appendix XXIII.

62. *Ibid.*, 67–68. On Harry Powers, see Trial transcript, *People v. Bauman*, 155 A.D. 935 (N.Y. App. Div. 1913), NYSL. Powers’ effective annual interest rate including fees (543.3405 percent) is calculated according to the standards for determining the annualized percentage rate (APR) for a closed-end credit transaction set forth in Regulation Z of the federal Truth in Lending Act. See 12 C.F.R. Part 226, Appendix J (rules for calculating APR for closed-end credit).

63. The naming ploy was effective. One borrower reported to the Society that he had sought a loan at the offices of a “Mr. Chesterkirk.” Statement of Franclyn H. Wood to

The Chesterkirk Company employed another common strategy for evading usury laws. Chesterkirk did not make loans directly, but operated as a broker for lenders such as H.A. Courtright of Providence, Rhode Island. Although the Chesterkirk office was in New York City, its loans were actually contracted in Rhode Island or Maine, where usury prohibitions were relaxed. The complex form of the transaction served to disguise a salary loan negotiated and finalized in New York as an out-of-state transaction, cloaking it in the law of a less-vigilant jurisdiction. Other salary lenders structured loans as salary purchases or wage assignments to evade usury restrictions. In these transactions, rather than making a loan, the lender would agree to buy the borrower's future wages; the lender might pay the borrower \$140 in exchange for the borrower's promise to assign the lender his wages, which were \$125 per month. As one Sage Foundation official concluded, lenders did "not as a rule openly violate the usury law." Instead, they cleverly evaded it. Regulating lending was like playing whack-a-mole: one form of usurious lending was shut down and another scheme popped up to get around the newly enacted law. The business of lending had moved from a local to a national scale, but the scope of regulation did not similarly expand from the state to the federal level.<sup>64</sup>

If a borrower defaulted, the lender could go after his or her wages or the mortgaged property. Or the lender might offer to renew or refinance the

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C.O.S., July 27, 1910, "New York - S.L., 1909–1915 General" Folder, box 41, RSF LOC. The incorporators of the State Trading Corporation were A.L. Goldshear of Boston, M.F. Valpey of Providence, Rhode Island, and Robert E. McGowan of New York City. Wassam, *The Salary Loan Business in New York City*, 64–65; *Trow Co-partnership and Corporation Directory of the City of New York*, 743. The owners remain shadowy figures. Attempts to locate additional information concerning the state trading incorporators have yielded nothing.

64. For an example of a salary loan masquerading as a wage assignment, see *D.H. Tolman v. Union Casualty & Surety Co.*, 90 Mo. App. 274 (Mo. Ct. App. 1901) (holding that a wage assignment was "nothing more than a shift or ruse to evade the statutes against usury" and void as usurious). Not only did lenders segment their operations to transact different pieces of the loan in different jurisdictions, they also opened offices in different states. Wassam noted that the loan application form used by a salary loan broker in Philadelphia was "practically the same as those used in New York city since several of the loan brokers have offices in both cities." Wassam, *The Salary Loan Business in New York City*, 93–95 (Appendix I). New York's usury regulations thus had the perverse effect of spreading the unsavory loan sharking business beyond the state's borders and the limits of its laws, rather than curbing or halting it entirely. On the similar effect of New York's regulations on the trade in pornography, see Donna Dennis, *Licentious Gotham: Erotic Publishing and Its Prosecution in Nineteenth-Century New York* (Cambridge: Harvard University Press, 2009). For Foundation quote, see "Memo. for Mr. Ashley [Wilcox]," July 1911, "New York - S.L., 1911 General" Folder, Box 38, RSF LOC.

loan for another term, tacking on additional fees while charging interest on the new higher loan value. Loan sharks were expert in the legal bluff, using borrowers' lack of legal sophistication against them. Often the appearance of legality was all that was required to extract payment. Excerpts from an instruction manual prepared by a loan office for its branch managers illustrate the strategy. The manual advised:

Use 'soft soap' talk on the borrower only after you have tried stones and gravel. If the customer mentions the law, hunch your shoulders and say you don't know much about it. . . .

Bluff the borrower by rattling papers in your desk, pretend to phone to an attorney, but hold the phone closed; remember the whole proceeding is more or less a bluff. Give your customer good hard roasts. . . .

We need managers with 'bulldog' determination. Get some attorney who will sell you his letterheads, and then write to slow customers upon them.

Lenders sent borrowers "legal looking" documents with titles such as "Notice of Judgment," "Original Notice before Suit," and "Ultimo Notitia[sic]" to imply that collection attempts by the loan office were actually court-issued warnings. Some, such as Doherty's creditor, went straight to the borrower's employer with an executed wage assignment.<sup>65</sup>

To discourage legal challenges, lenders also might present the employer with a list of court decisions affirming the "absolute right" of all employees to assign their wages. Chesterkirk advised borrowers' employers that the "highest Courts of Rhode Island, Massachusetts, Pennsylvania, New York, and other states have decided that every employee has an absolute right to assign wages which he has earned and also wages which he expects to earn, and that the employer, in such cases, is bound to pay such wages as they accrue to the assignee." A string of case citations followed, calculated to discourage further investigation into the limits of lenders' collection rights.<sup>66</sup>

### *The Law of the Loan Shark in the Lochner Era*

Because debt collection disputes infrequently ended up before a judge, courts' influence on working-class borrowers is difficult to discern in most cases. Loan sharks preferred to rely on unofficial collection methods,

65. These tactics are described in John E. Taylor, "Loan Shark Agencies," *Bulletin of the National Federation of Remedial Loan Associations* 7 (1915): 46–49.

66. For sample collection letters from Chesterkirk, see Record on Appeal, *Thompson v. Erie Railroad Co.*, 207 N.Y. 171 (1912), Box 553, Vol. 127, Series J2002-82A, NYSA (Exhibit 4); Record on Appeal, *Thompson v. Gimbel Brothers*, 207 N.Y. 659 (1912), *ibid.* (Exhibits 2c, 3d).

or to file wage assignments that allowed them to collect wages directly from debtors' employers. Although lenders freely cited judicial opinions to discourage legal challenges to their right to collect, they rarely tested the legality of their loan contracts in court. One journalist observed that the "loan shark seldom sues. There are only two cases on record in New York State. When he threatens suit it is only a bluff. Met by a reputable attorney, he compromises or drops the case entirely. He wants neither litigation nor intelligent inquiry."<sup>67</sup>

Yet, lenders sometimes deemed court necessary. In these cases, loan sharks' clever methods of evading usury laws somewhat evened the playing field. Even if the loan was illegal, the many forms and borrower signatures gave an air of legality to the transaction. Moreover, the lenders' version of the facts would often go unchallenged; borrowers were reluctant to go to court to defend themselves, for fear of public exposure as debtors. Further, lenders could avoid the adversary process entirely by filing a confession of judgment against the borrower, allowing the lender to garnish the borrower's wages to recover the outstanding debt plus \$15 in court costs.<sup>68</sup>

Of the small number of cases that reached a judge, few raised legal questions that brought judicial discretion into play. In the absence of fraud, duress, or contract terms that violated "public policy," courts favored enforcing contracts as written. Progressive-era judges would inquire into the fairness or equality of private bargains only in rare cases. Courts had

67. Between 1904 and 1911, the business methods of New York City loan sharks were rarely challenged in court, except in a small number of civil debt collection cases. Following amendment of the penal law in 1904, the Manhattan district attorney declined to prosecute salary lenders for violation of state usury laws because he assumed that violation of the interest rate cap on salary loans was no longer punishable as a criminal misdemeanor. Prosecutions resumed in 1911 when a judge made clear that a similar provision in the banking law could be used to prosecute usurious lending. Easterly, "Your Job Is Your Credit: Creating a Market for Loans to Salaried Employees in New York City, 1885–1920," 164–65. On lenders and borrowers reluctant to expose themselves to judicial scrutiny, see Richard Barry, "The Way of the Salary Loan Shark" (published in *Santa Fe Employes' Magazine*, 39–49), January 1910, "New York - S.L., Summaries Loan Shark Campaign" Folder, box 41, RSF LOC.

68. On salary lenders' general reluctance to defend against legal challenges to their tactics, see Michelman, *Consumer Finance*, 76. On collection tactics, see Calder, *Financing the American Dream*, 54. On how judges approached these cases, see Haller and Alviti, "Loansharking in American Cities," 127. Upon filing of a confession of judgment, the New York Code of Civil Procedure required the clerk of the court to issue an execution and add \$15 in costs to the amount of the note. One lender made a regular practice of filing confessed judgments and then garnishing the borrower's wages for the outstanding debt plus costs. Russell Sage Foundation Agent to J.G. Hines (Chief Clerk, License Bureau, Comptroller's Office), June 22, 1911, "New York - S.L., 1911 General" Folder, box 38, RSF LOC.

some leeway in deciding whether contract terms were unenforceable on policy grounds, but often erred on the side of enforcement. “[W]hat public policy requires is often a vague and difficult inquiry,” New York’s highest court explained in 1887. “It is clear that public policy and the interests of society favor the utmost freedom of contract, within the law, and require that business transactions should not be trammelled by unnecessary restrictions.”<sup>69</sup>

Judges influenced the debt collection process at the margins, by construing the meaning of loan contracts and of state disclosure and licensing regulations. In the rare cases in which small-scale lending questions reached the courts and presented novel questions of law, judges carefully considered the dictates of public policy and the reach of common law defenses to enforcement of loan contracts. Many shared the anti-loan shark campaign’s view that excessive governmental entanglement in private economic affairs could do more harm than good. Applying the common law of contracts, judges narrowed the defenses available to those opposing enforcement of loan agreements. For example, although New York law provided that usurious loans were void, judges held that only the borrower could raise the defense of usury to bar collection on a debt. A borrower’s employer defending against a wage garnishment action could not avoid payment on the ground that the loan was void for usury. This defense was available only to the borrower. In these cases, courts would enforce the terms of the bargain as written.<sup>70</sup>

In some instances, courts treated governmental interference with private contracts as more than simply undesirable on policy grounds; it was potentially an unconstitutional infringement of borrowers’ liberty of contract. *Lochner*-era judges expanded the limits of “freedom of contract” to bar not only judicial meddling with private bargains through the application of common law doctrines, but also to prohibit some forms of legislative intervention. They concluded that “freedom of contract” was a fundamental liberty, constitutionally protected from legislative infringement. In effect, courts elevated a turn-of-the-century

69. *Diamond Match Co. v. Roeber*, 13 N.E. 419, 422 (N.Y. 1887) (holding that promise not to engage in match manufacturing is not void as a restraint of trade against public policy); see also *Watertown Thermometer Co. v. Pool*, 4 N.Y.S. 861 (App. Div. 1889) (“It is clear that public policy and the interests of society favor the utmost freedom of contract, within the law, and require that business transactions should not be trammelled by unnecessary restriction.”).

70. *Thompson v. Interborough Rapid Transit Co.*, 96 N.Y.S. 416 (App. Term 1905) (affirming judgment in favor of creditor, holding that borrower’s employer could not raise the defense of usury to defeat a wage assignment).

common law presumption in favor of enforcing the terms of a contract into a constitutional right against improper state interference with private bargains.

Doherty's unusually complicated and prolonged legal battle reveals the role that *Lochner*-era judges sometimes played in the lives of poor borrowers. Doherty was unusual in that he had his day in court, unlike most New York City borrowers. Or rather, his employer, the Erie Railroad, had its day. Doherty's case came before a judge because the Erie Railroad did not fire Doherty upon learning of the wage assignment, contrary to the longstanding practice of many employers. Instead, the railroad hired counsel and disputed the lender's claim all the way up to the Court of Appeals, New York State's highest court. Also out of the ordinary was the bold decision of Doherty's creditor to litigate, despite the vigorous legal defense mounted by the railroad.<sup>71</sup>

By the time Doherty's case came to trial in New York, state courts had struck down as unconstitutional a handful of regulations related to private economic decisions. The New York line of decisions stretched back to 1885, when the New York Court of Appeals invalidated a state law banning cigar manufacturing in tenements in Manhattan and Brooklyn on constitutional grounds. The court struck down the law as an unconstitutional exercise of legislative power infringing on individual liberty without serving the interest of public health. In the decades that followed, the court both upheld and struck down protective legislation depending upon the law's scope and relationship to the separate spheres of the home and the market. Then, in a landmark decision in 1905, the United States Supreme Court weighed in, objecting to the court's broad reading of the police power. In *Lochner v. New York*, the seminal case that came to define the period up to 1937 as the *Lochner* Era, the United States Supreme Court overturned a New York law that limited the working hours of bakers, holding that it was an "unreasonable, unnecessary and arbitrary interference with the right of the individual to his personal liberty or to enter into those contracts in relation to labor which may seem to him appropriate or necessary for the support of himself and his family." Two months later, the New York Court of Appeals applied the teachings of *Lochner*. It struck down a licensing law for employees

71. In May 1911, after Doherty defaulted on his loan, the Erie Railroad joined with other merchants and large employers in New York City in recommending that all businesses rescind internal company policies requiring discharge of employees known to have borrowed from salary lenders. "Business Men Begin War on Loan Sharks." Chesterkirk may have decided to pursue the case because it understood that a reform campaign threatened its lucrative business and that it needed to take a stand.



of plumbing firms as “an unwarranted interference with individual freedom.”<sup>72</sup>

The lawsuits that followed John Doherty's failure to make payment on his loan capture New York judges at work defining the meaning of “liberty of contract,” pondering how much leeway private actors should have to set the terms of their bargains free from the constraints of judges and legislators. They also illustrate how judicial interpretation of the common law of contracts and protection of contractual liberty against legislative interference could turn courts into loan sharks' allies. In Doherty's case, Myrtle M. Thompson, who had purchased Doherty's debt from N.W. Hasten, sued the Erie Railroad Company for the amount owed in the Municipal Court in Brooklyn. The railroad argued that the creditor had not complied with New York's notice requirement for wage assignments and was therefore barred from using the courts to collect the debt. Erie lost at trial and judgment was entered in favor of the creditor. The railroad appealed the decision.<sup>73</sup>

Erie first appealed to the New York Intermediate Appellate Court, hoping for a reversal of the creditor's victory at trial. The railroad lost again. In a unanimous decision by Judge Woodward, the court accepted the creditor's claim that Doherty had “authorize[d] his agent to enter into a lawful contract” in the state of Maine. It rejected the railroad's defense that court

72. *In re Jacobs*, 98 N.Y. 98 (1885). *Lochner v. New York*, 198 U.S. 45, 56 (1905). *Schnaier v. Navarre Hotel & Importation Co.*, 74 N.E. 561, 562 (N.Y. 1905). On economic regulation decisions by the New York Court of Appeals before *Lochner* and the shift immediately following, see Felice Batlan, “A Reevaluation of the New York Court of Appeals: The Home, the Market, and Labor, 1885–1905,” *Law & Social Inquiry* 27 (Summer 2002). In 1901, for example, the Court of Appeals invalidated as unconstitutional a prevailing wage law for public works contracts, noting that courts should bear in mind the maxim: “the government governs best which governs the least.” *People ex rel. Rodgers v. Coler*, 59 N.E. 716, 720 (N.Y. 1901). This study does not address whether *Lochner* was rightly or wrongly decided. The jurisprudential philosophy behind *Lochner* has been extensively debated elsewhere. See, for example, David E. Bernstein, *Rehabilitating Lochner: Defending Individual Rights against Progressive Reform* (Chicago: University Of Chicago Press, 2011); Paul Kens, *Lochner v. New York: Economic Regulation on Trial* (Lawrence: University Press of Kansas, 1998); Howard Gillman, *The Constitution Besieged: The Rise and Demise of Lochner Era Police Powers Jurisprudence* (Durham: Duke University Press, 1993); Owen M. Fiss, *Troubled Beginnings of the Modern State, 1888–1910* (New York: Macmillan, 1993). Many *Lochner* revisionists have pointed out the extent to which the Supreme Court upheld protective legislation during the “*Lochner* Era,” rather than invalidating it. This study finds evidence of a similar pattern in the New York state courts and of resonances between the regulatory approaches of courts and reformers.

73. A salary lender was required to file a copy of a wage assignment with the borrower's employer within three days of “the execution of such assignment or notes and the making of such loan or loans.” N.Y. Pers. Prop. Law § 42 (1909).

enforcement of the contract was barred by the lender's failure to comply with New York's notice regulation. The loan contract was valid and enforceable as written, the court held. Doherty had a "common law" right to enter into the contract with Blanding. (In finding for the creditor, the court repeatedly invoked the debtor's rights: the "right" to give a power of attorney to a resident of Maine, the "right" to enter into a loan in Maine, and the "right" to assign his wages). The decision made no mention of Doherty's testimony that he had not read the power of attorney and had never heard of his nominal agent, Stella Blanding, who signed the loan agreement on Doherty's behalf. These facts had no legal consequence. The railroad had no defense under the common law and the New York notice regulation did not provide one either. Construing the New York law to deny the lender its right to file an action to collect the debt, the court held, would be a "denial of the constitutional rights of the employees."<sup>74</sup>

The appellate court's decision in Doherty's case might have been the last word on the matter, had it not been for another New York case that was decided the other way. While the Erie Railroad was fighting its way through the Brooklyn courts, Gimbel Brothers department store was litigating a wage assignment suit in Manhattan against the same debt buyer, Myrtle Thompson. The Gimbel Brothers suit was closely watched by reform organizations and concerned members of the business community who had pledged to combat usurious lending. Gimbel Brothers had joined the Russell Sage Foundation's campaign to rid New York City of loan sharks, and was represented by Walter Hilborn. Gimbel Brothers won in the intermediate appellate court, by a narrow three to two margin.<sup>75</sup>

74. *Thompson v. Erie Railroad*, 147 A.D. 8, 10–11 (N.Y. App. Div. 1911) (emphasis added). A few years before the Erie appeal, Judge Woodward also authored the court's opinion in *Grossman v. Caminez*, invalidating on constitutional grounds a state law that barred real estate brokers from offering property for sale without the written authorization of the property owner. Woodward wrote that the law interfered with the "right or privilege guaranteed to citizens generally to make verbal contracts which are to be performed within a year." 79 A.D. 15, 19 (N.Y. App. Div. 1903). The infamous loan shark Daniel Tolman later cited Woodward's *Grossman* opinion in his brief to the New York Court of Appeals seeking to overturn his conviction for criminal usury. Appellant's Brief at 25, *People v. Tolman*, Box 582, Vol. 22, Series J2002-82A, NYSA. The Court affirmed the conviction without addressing Tolman's argument that the usury law was unconstitutional. *People v. Tolman*, 210 N. Y. 592 (1914).

75. *Thompson v. Gimbel Brothers*, 145 A. D. 436, 440 (N.Y. App. Div. 1911). Gimbel Brothers retained Hilborn to defend wage assignment cases brought against their employees. As a former associate in Louis Brandeis's firm, Hilborn was familiar with the "sociological jurisprudence" of the period. In his brief for Gimbel Brothers, Hilborn made extensive use of social science data on lending. On Gimbel Brothers' involvement in the anti-loan shark campaign, see Michelman, *Consumer Finance*, 76; and "Legal War Begins on Loan Sharks,"

Both cases were then appealed to New York State's highest court and set to be argued on the same date. The court would decide once and for all whether the employee's freedom of contract should trump New York's lending disclosure regulation. The fates of Doherty and the Gimbel Brothers employee-borrowers were joined. Hilborn, the lawyer for Gimbel Brothers, was optimistic about the department store's appeal, but feared that the bad decision in the Erie case and the failure of Erie's lawyers to present empirical data to support their cause might jeopardize Gimbel Brothers' chances. After all, Gimbel Brothers had prevailed in its first appeal by a narrow margin, whereas the decision in favor of the creditor in the Erie case was unanimous. Moreover, Judge Woodward and the two dissenting judges in *Thompson v. Gimbel Brothers* all accepted the creditor's distorted version of the facts: that the borrower "chose to make his bargain with the money lender in a State which has no usury law."<sup>76</sup>

Ultimately, Gimbel Brothers and Erie Railroad—backed by the anti-loan shark campaign—prevailed in their objective: to bar creditors from using the courts to enforce wage garnishments that did not comply with statutory disclosure requirements. Confronted with an arsenal of reports on the salary loan situation in New York that were appended to the Gimbel Brothers brief, the court found that the disclosure law was enacted for the protection of both employers and borrowers. It was a reasonable exercise of the police power that served the "public welfare" because it would "to some extent prevent improvidence and recklessness by and fraud upon the employee." The lender's failure to comply with the notice law barred it from using the courts to collect the debt from Doherty's employer.

In this and other cases, courts reasoned that the state could impinge on borrowers' contractual freedom to prevent pauperism. The United States

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*New York Times*, January 1, 1911, 6. In 1914, the New York County district attorney's office appointed Hilborn to head a newly created bureau for the prosecution of usury cases. Glenn, Brandt, and Andrews, *Russell Sage Foundation, 1907–1946*, 1:140–41. Hilborn later worked with the Russell Sage Foundation in securing the passage of the Uniform Small Loan Law. *Ibid.*, 1:336–39. In addition, he and his co-counsel and law partner David Gallert also co-authored a study of small loan legislation published by the Foundation. David J. Gallert, Walter S. Hilborn, and Geoffrey May, *Small Loan Legislation: A History of the Regulation of the Business of Lending Small Sums* (New York: Russell Sage Foundation, 1932).

76. On Hilborn's concerns about joining the cases on appeal, see Walter S. Heilborn (alternate spelling of Hilborn) to Arthur Ham, May 10, 1912, "New York - S.L., 1912–1913 General" Folder, Box 37, RSF LOC. *Thompson v. Gimbel Brothers*, 145 A.D. at 440 (Clarke, J., dissenting) (emphasis added).

Supreme Court upheld a similar Massachusetts disclosure law a few months before the New York court decided Doherty's case. The Supreme Court used similar language to describe the purpose of the Massachusetts law. It was designed to prevent an improvident wage earner from depriving his family of support and becoming "a public charge." With the exception of Illinois, other state courts fell in line with Massachusetts and New York in upholding similar regulations.<sup>77</sup>

Anti-loan shark activists hailed the decision as a victory for small loan borrowers; however, the real impact of the decision was limited. The ambiguity in the three day notice provision—the central question addressed in both cases—was corrected through legislative amendment before the Court of Appeals ever ruled on the provision's meaning. Loan sharks were thus made to comply with a narrow, procedural regulation, whereas the court did not directly address Judge Woodward's sweeping pronouncements on the common law "rights" of borrowers to enter into usurious loan contracts, limitation of the defenses available to void such bargains, and disinterest in testimony concerning the circumstances of the transaction and the subjective understanding of the parties to the deal. Indeed, the following year a defendant in an unrelated case cited Judge Woodward's opinion as good law, despite its apparent overruling, when attempting to overturn her conviction for criminal usury. Woodward's language continued to provide lenders with a legal toehold to defend their practices.<sup>78</sup>

77. Note that the Court of Appeals' opinion erroneously refers to the borrower as "John Dougherty." *Thompson v. Erie Railroad*, 207 N.Y. 171, 177–80 (1912). The Massachusetts decision is *Mutual Loan Co. v. Martell*, 222 U.S. 225, 233 (1911). The Illinois Supreme Court decided the other way in *Massie v. Cessna*, 239 Ill. 352 (1909). Minnesota affirmed the validity of a similar statute in *Fay v. Bankers Surety Co.*, 125 Minn. 211, 216–17 (1914), as did the Supreme Court of Tennessee in *West v. Jefferson Woolen Mills*, 147 Tenn. 100 (1922). As historian Charles McCurdy has observed, courts in this period upheld other types of social legislation on similar grounds. "Prevention of pauperism" became an accepted justification for exercise of the police power, but remedying inequality of bargaining power did not. Charles W. McCurdy, "The 'Liberty of Contract' Regime in American Law," in *The State and Freedom of Contract*, ed. Harry N. Scheiber (Stanford: Stanford University Press, 1998), 186–87.

78. On the amendment of the wage assignment statute in 1911, which further supported the court's ruling for the employers, see N.Y. Pers. Prop. Law § 42 (1911). On reformers' reaction to the decision, see Ham, "The Court of Appeals and the Loan Shark" (applauding the decisions that "cut the string which lenders, operating from Portland, Me., and other points have been able to tie upon victims in New York."). The impact of the decision on Doherty is unknown. Few traces of Doherty's life, post-decision, remain in the historical record. A man by the name of John Doherty, also born in December 1886, appears in the World War I draft registry, but he does not resurface in either the 1920 or 1930 census records. Like many working-class borrowers, Doherty's life was not carefully documented

## Conclusion

Historians have usually portrayed *Lochner*-era courts and progressive reformers as opponents. In the dominant narrative, progressives sought to use the power of the state to regulate the market, whereas judges battled to keep government in check. However, as recent scholarship has shown, progressive reform movements were animated by a multiplicity of goals and ideologies, not always in harmony with one another. The anti-loan shark campaign's vision of the role of the state in the market, one of many "progressivisms," defies easy categorization as "statist" in outlook. In this case, the standard binaries—courts versus reformers, advocates of laissez-faire versus statist—fail to capture the complex relationship between the judiciary and the lending reform campaign. Lending reformers looked beyond the state for solutions, relying instead on other market participants and corporate employers to police the small-sum lending industry. Their strategy reflected a private, market-based approach, rooted in organized charity's historic opposition to government involvement in the provision of poor relief and preference for private solutions to poverty.<sup>79</sup>

Reformers fought not for greater state involvement, but rather for loosening the regulatory caps on interest rates and placing limits on lender access to the courts to collect unpaid debts. The role of the law, reformers believed, was to level the playing field and allow for free entry of "honest capital." Raising interest rate caps would encourage the growth of the industry and the resulting competition between lenders would purge the market of loan sharks. Private remedial lending operations would create further competitive pressure on usurious lenders. Flooding the market with capital would drown the sharks, reformers believed. They also sought to use the power of private employers to police the lending industry. They encouraged employers to refuse to honor wage assignments from loan sharks and to raise defenses to enforcement of such debts in court. In this way, corporate employers would provide a backstop against usurious lending practices.

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or preserved for posterity. World War I Draft Registration Card, John Doherty, Draft Board 118, New York County, New York, World War I Selective Service System Draft Registration Cards (digital scan of NARA microfilm publication M1509; Roll No. 1766138), Ancestry. On the later use of Woodward's opinion, see Appellant's Brief at 25–28, *People v. Bauman*, 155 A.D. 935 (N.Y. App. Div. 1913), NYSL.

79. For a summary of the historiography on the "multiplicity" of "progressivisms," see Robert D. Johnston, "The Possibilities of Politics: Democracy in America, 1877 to 1917," in *American History Now*, ed. Eric Foner and Lisa McGirr (Philadelphia: Temple University Press, 2011), 100.

Courts were likewise wary of legislative and judicial encroachment on private bargains. Yet, they recognized that the state had a legitimate interest in preventing improvident wage earners from becoming paupers, dependent upon poor relief. This interest justified some state-imposed limits on lenders' right to collect unpaid debts. Judges, like reformers, envisioned that the state would play a limited role, creating space for private power to regulate the marketplace and protect borrowers from their own "improvidence."

Thus, when lending reformers and courts puzzled over how to configure the relationship between the state and the market, they often reached similar conclusions. These progressives and state court judges were not always at odds in how they envisioned the role of the state in the market. Instead, overlapping and complementary intellectual currents emanating from established legal and philanthropic circles molded the structures of law, charity, and industry in which working-class New Yorkers borrowed and determined the options available to those managing money on the margins.<sup>80</sup>

80. A few scholars have examined the fate of economic regulations in the state courts. In 1985, Melvin Urofsky first observed that the "doctrine of contract" was "was far from triumphant at the state level." Carol Chomsky's study of the Minnesota Supreme Court and Kyle Murray's of the Iowa Supreme Court provide further detail. For New York, there is no work that covers the entire *Lochner* Era; Felice Batlan's work ends with *Lochner* in 1905 and William Nelson's does not start until the 1920s. Melvin I. Urofsky, "State Courts and Protective Legislation during the Progressive Era: A Reevaluation," *The Journal of American History* 72 (1985): 63–91; Carol Chomsky, "Progressive Judges in a Progressive Age: Regulatory Legislation in the Minnesota Supreme Court, 1880–1925," *Law and History Review* 11 (1993): 383–440; Kyle T. Murray, "Looking for *Lochner* in All the Wrong Places: The Iowa Supreme Court and Substantive Due Process Review," *Iowa Law Review* 84 (1999): 1141–81; Felice Batlan, "A Reevaluation of the New York Court of Appeals: The Home, the Market, and Labor, 1885–1905," *Law and Social Inquiry* 27 (2002), 489–528. Batlan, "A Reevaluation of the New York Court of Appeals"; and William E. Nelson, *The Legalist Reformation: Law, Politics, and Ideology in New York, 1920–1980* (Chapel Hill: University of North Carolina Press, 2001).