



**THE ENGINE OF ENTERPRISE:
CREDIT IN AMERICA**

BY ROWENA OLEGARIO
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REVIEWED BY DAVID A. PRICE

“We owe more to credit and to commercial confidence than any nation which ever existed,” Sen. Daniel Webster told his fellow senators in an 1888 speech. He noted that credit had “covered the seas with our commerce” and “excited and stimulated our manufacturing industry, encouraged labor to put forth the whole strength of its sinews, felled the forests, and multiplied our numbers, and augmented our national wealth, so far beyond all example as to leave us a phenomenon for older nations to look at with wonder.”

Debates over the role of credit in America’s economic growth — and in its occasional crises — date back to the country’s founding period. On the “pro” side stood Treasury secretary and future Broadway hero Alexander Hamilton, among others, who regarded credit as essential to the young country’s development. On the skeptical side was Thomas Jefferson, wary of financiers becoming excessively powerful and warning of an immiserating effect of debt.

This division in the thought of early Americans is the starting point of Rowena Olegario’s *The Engine of Enterprise*, billed as “the story of credit from colonial times to the present.” Olegario, a senior research fellow at Oxford University, considers that history starting with the germination of American commercial credit through the mid-19th century and ending with the democratization of credit and what she calls the “erosion of credit standards” from the 1980s to the early 2000s.

For a scholarly book from an academic press, *The Engine of Enterprise* is atypical in that it presents neither an overarching thesis nor original research; apart from a few colonial-era sources, it is a synthesis of existing modern literature. Moreover, because its narrative is strictly chronological, the reader wishing to attempt a synthesis of a particular topic on his own — the evolution of bankruptcy policy, say, or of trade credit — must pull together material from widely scattered pages.

Still, the book offers a competently written account of milestones in the history of U.S. credit markets and products. An area of strength is its account of the rise of consumer credit from the 1920s to the 1970s. For the spurring of this rise, Olegario assigns a central role to secured installment credit, which made durable goods such as autos and appliances more accessible to the middle class. General Motors used installment credit as a source of competitive advantage against Henry Ford starting in 1919, when it created

its captive finance company, General Motors Acceptance Corp. (GMAC), to offer credit directly to its new-car customers. (In contrast, Ford customers who wished to buy on credit had to work with sometimes-sketchy local finance companies.) In the long run, Olegario concludes, GMAC stimulated the growth of installment credit “by helping make installment purchases the norm.”

Another revolution in consumer lending came in the 1970s with the entry of bank credit cards into the mainstream. While the cards had antecedents going back to the early part of the century — Western Union cards, gas station cards, and, later, store cards — the emergence of bank-issued cards like today’s Visa and MasterCard was punctuated at first by expensive failures. Once the issuers figured out how to market the cards, price the credit, and manage fraud, however, the cards’ growth was rapid; from 1970 to 1977, penetration more than doubled from 16 percent of households to 35 percent. Helping the cause of the issuers was a 1978 U.S. Supreme Court decision that, in effect, enabled them to bypass state usury laws.

One theme that Olegario could have teased out of her material, but leaves implicit, is the role of information in the evolution of American credit markets and of Americans’ financial affairs. In the colonial period, as she recounts, business credit was based on the lender’s personal knowledge of a trading partner’s circumstances and past behavior. In the 19th century, while direct knowledge continued to be important, credit-reporting agencies began to field networks of credit reporters — Abraham Lincoln, in his days as a lawyer, was one of them — to provide information to out-of-town creditors. Consumer credit bureaus followed later in the century.

In the 1960s, the scale of credit-reporting services plus advances in technology combined to make computerized credit reporting cost-effective. The real upheaval, however, came with the next step: the widespread adoption of credit scoring — using an algorithm to analyze a borrower’s credit risk using information in his or her credit file and expressing the results as a number. This expansion in the information available to creditors helped enable a rapid increase in credit available to consumers and, ultimately, skyrocketing consumer debt from the early 1980s to the early 2000s. (See “Credit Scoring and the Revolution in Debt,” *Econ Focus*, Fourth Quarter 2013.)

Although *The Engine of Enterprise* does not try to change the reader’s way of thinking about credit and its history, it is a useful resource for those seeking a quick path into the historical literature on topics ranging from pawnbrokers to mortgage lending, from corporate debt to student loans. For policymakers and academics involved with financial regulation, an understanding of this history will only become more important in coming years. **EF**

BOOKREVIEW

Credit History