

How Industrial Corporations Became Financial Corporations:

The Case of General Electric

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Introduction: From Industrial To Financial

While personal lending had always existed, before 1917, it had never been legal to charge interest rates high enough to turn a profit and, equally important, lenders had never been able to resell their customers' debts or borrow against them. In short, personal debt had never been able to be a normal business. Personal debt remained disconnected from the great flows of capital, confined to the margins of the economy. The big money in America was made by turning the hard work of Americans into commodities, not by lending those workers money. The wealthy could get personal loans at banks, alongside their business affairs, but for everybody else credit remained outside the conventional economy. Why would the Carnegies and Morgans of the world want to tie up their capital in loans to steelworkers, when they could make so much more money by building steel plants? When friends and family were tapped out, loan sharks, whose interest rates dwarf even the most subprime lender's today, could provide cash, but these small timers could never compare in power or wealth to the Gilded Age titans of steel and rail. By the end of the twentieth century, however, such petty loans to workers had become one of the greatest products of American capitalism, extracted and traded as if debt were just another commodity, as if debt were as real as steel. Consumer finance had moved from the shadowy margins of capitalism into its brightly-lit boardrooms, remaking, in its wake, the entirety of the American economy.

How did our largest industrial corporations turn away from investing in production to become personal lenders to working people?

While the larger macroeconomic changes have been widely discussed in the literature, less attention has been focused on the internal histories of the firms that actually made this shift, like General Electric. Understanding how GE went from making bulbs to making debt, I think,

sheds light on what exactly happened in American capitalism in the last forty years, and the ways in which it was the product of manufacturing structure, state policy, and business strategy.

The Origin of GE's Financing Function

General Electric had profitably manufactured lightbulbs and washing machines since the dawn of the electrical era, selling its products through specialized dealerships, as well as regular stores. Like automobile manufacturers, General Electric helped its dealers finance their sales inventories, as well as underwriting customers' purchases of all those washing machines. Financing dealers' inventories helped GE keep its factories humming 24 hours a day year-round and forced the dealers to pay for all those gizmos sitting on the shelves (rather than in GE warehouses). And of course financing the installment credit of consumers helped sell goods, which helped GE make money from manufacturing.

Starting with General Electric (GE), manufacturers set up subsidiary financing companies for wholesale financing, and then, later, retail financing. General Electric made finished consumer goods as well as parts for other manufacturers, like motors. GE, in conjunction with some of its manufacturing partners, started six finance companies across the country, in New York, Pennsylvania, Ohio, Illinois, California, and Texas.¹ Initially, these finance companies had minority stockholders from other durable goods manufacturers who used GE motors in their machines, but as GE expanded into more lines, like washing machines and vacuum cleaners that competed with their previous partners, those relationships fell apart. In 1921, General Electric formed its first totally subsidiary finance company that was the forerunner to the General Electric

Contracts Corporation (GECC), leading the way for financing companies to become part of non-automotive manufacturers' business.²

Manufacturer competition determined the boundaries of lending in which the subsidiary finance companies engaged. Like in auto manufacturing, the primary aim of these finance companies was to promote the manufacturer's product lines. GECC, for instance, financed only GE-manufactured products, even though it could have easily, and profitably, financed other manufacturers' goods as well. Companies that used GE motors complained to government investigators in the early 1920s that if they used any non-GE motors in their machines, "General Electric Co. would refuse to sell us any motors and would refuse to allow the Purchase Corporation [GECC] to finance our dealers."³ Though the head of the GECC, E.W. Miner, claimed they would sell motors to anyone, he confirmed that without the exclusive use of GE motors, it was the "general practice" not to finance any of their products.⁴ Manufacturing profits were the goal, not the expansion of the financing company, and certainly not even the vaguest possibility of financing competitors of General Electric.

By the end of the 1920s, manufacturers like General Electric and General Motors had absorbed retail finance as a key component of their business. Manufacturing profits were far greater than finance profits, but finance was an important part of their business making the rest of the enterprise possible.

Little changed for these manufacturer finance subsidiaries during the postwar years. GECC continued to sell bonds on the capital markets, using that capital to finance the installment contracts of its customers and the wholesale financing of its dealers. The unit was marginally profitable, but it was stable and provided a service that could not be found in the market and making GE-manufactured goods widely available. While GE focused on R&D, innovating new

science and new products, its retail mechanisms remained stagnant. But in the early 1960s, that stable world would begin to change.

The Discount Store, Cheap Goods, and Financial Change

While credit was central to the services of the department store, discount stores had a more ambivalent relationship with consumer credit. Focused on a low-cost strategy, discounters often began as cash-and-carry. While department stores had promoted their own credit departments and policies, many discounters had a far more ambivalent approach to consumer credit. Part of what kept prices so low at Target, Douglas Dayton explained in 1969, was that they offered “no credit.” Self-service enabled low payrolls, suburban locations enabled vast big-box parking, and a lack of credit enabled capital to be invested in expansion — not customers’ bills. Unlike other discounters, Target sold no large appliances, completely breaking the link between their business and that of the 1950s mill stores. And they did take checks. “That,” he said, “is the way we want it to be.”⁵

The discounters that came out of existing retailers, like K-Mart, tended to offer credit, while those invented as discounters, like Wal-Mart, did not. The lack of credit at Wal-Mart and many other discounters marked a break in the long history of coupling of retailers to credit. While the majority of department store purchases were charged by the mid-1960s, only 13 percent of discount purchases were. Few stores had the volume to run such a service profitably. The discount store resolutely told consumers to look elsewhere if they wanted to borrow.

The appeal of the discounters, despite a lack of credit, weighed heavily on the minds of credit professionals. Among discount shoppers, 60% considered charge accounts important.⁶ If

it was important to 60% of the shoppers who did shop at the discounters, imagine how important it was to those who didn't shop there at all! A *Life* magazine study in 1962 found that the “charge account facilities [were an] important reason for shopping in department stores.”⁷ Credit had become a primary reason to shop at department stores. Price certainly wasn't.

Caldor's was a typically successful discounter that didn't offer credit. Founded in 1951 in Port Chester, NY by a World War II veteran named Carl Bennett, he named the store by combining his name and that of his wife Dorothy.⁸ By 1963, Caldor's was solidly in the top 100 discounters in the country with annual sales of \$15.5 million. But its growth was nothing special. Their sales, like the entire discount industry, had grown 65% from 1962 to 1963. Moreover, the largest discounters, like E. J. Korvette had sales of \$257 million. More distressing, no doubt, was that while Caldor's sold \$2.5 million per store, Korvette's was able to sell \$12.2 million.⁹ How could Caldor's better compete?

Americans loved low prices, but they also loved revolving credit. Customers with charge accounts simply bought more than cash customers, even when they paid cash — and that could not be ignored in the competitive field of discounting. Shoppers also paid closer attention to advertisements of stores where they had accounts. For stores like Caldor's, which relied primarily on a weekly color circular in the local newspaper to attract shoppers, these differences mattered. Desperate to attract more customers, revolving credit began to spread outside of department stores. Consumers began to expect revolving credit at all kinds of retailers, even at places where installment credit had traditionally financed their purchases, like at appliance dealers. As the lower prices of the discount stores rippled through the suburban economy, competition increased. Credit offered an important weapon against the more successful stores, but Caldor's couldn't finance its own credit.

By the mid-1960s, retailers wanted to know how they could boost sales without offering credit themselves. In their monthly magazine *Discount Merchandiser*, store managers could read a report from the management consulting firm Touche, Ross that credit, despite what they had heard, was not profitable.¹⁰ Of course Touche, Ross vastly underestimated the interest rate that stores charged borrowers — a hypothetical 6% vs. a real 20% — in a fit of from-the-hip assumptions only consultants could be paid for. Yet, the main point of the report, which was widespread in the industry, was that sales, not credit, drove profits, and if stores could find a way to do the former without the latter they would be better off.

Discounters had to be convinced that offering credit would help them — they had done pretty well with just barebones service. In 1962, as all those landmark discounters started up, Bernard Korn, a credit executive with a New York finance company, laid out the advantages and disadvantages of lending to customers in the discounters' bible — the monthly *Discount Merchandiser*.¹¹ The advantages for the discounter were the same as for the department store: customer loyalty, higher spending, and frequent shopping. But the challenges for department stores were multiplied for the discounter. On every cut-rate sale, they had to pay for the same billing machines, accounting costs, and collection fees as a regular store — but with already slimmer margins. Korn estimated that stores that offered six-month revolving credit — the only kind he thought made sense by 1962 — would need additional capital equal to 40% of the sales volume. If a store sold \$1 million in a year, then it would need to borrow \$400,000. A store would need to look outside itself for the necessary capital. If that store could borrow from a bank at 6% — no mean feat — then just the interest on the loan, before all the overhead — would cost \$24,000 a year. A discounter's increased revenue would need to cover the cost of interest, as well as all the other costs of such a program. The tricky thing about a credit program, though, is

that it is all or nothing. If a store had a little extra cash, it could experimentally invest in some additional sweaters. But if a store launched a credit program, it could very quickly devour all of a retailer's capital. Instead of borrowing \$400,000, a store might uncontrollably need \$4,000,000! What Korn encouraged, where possible, was to make arrangements with a local finance company to resell the debt. By the early 1960s, department stores were reselling their debt, either to subsidiary finance companies (like Federated Department Stores) or to external finance companies. In either case, the department store still ran the credit program, but outsourced the capital investment.

What would happen with discount credit went beyond simple resale.

GECC and Discount Shopping

So where does General Electric fit in this story of small-time regional discount chains?

These discount chains are made possible by the incredible productivity of American manufacturing (like that of General Electric) coupled with rollbacks of the minimum price levels that had been in place since the 1930s to protect local retailers from chain stores. The end of manufacturer-controlled prices began with a 38-year old New Orleans grocer named John Schwegmann, who having worked in his family grocery since the age of 14, believed that “by keeping prices low the public [would] reward [him] by buying more.”¹² He refused to cooperate with the pricing schemes of liquor manufacturers, and went to court to fight for his right to set his own prices. The court agreed. Beginning in 1951 with *Schwegmann Brothers v. Calvert Distillers Corporation* that struck down Louisiana's “non-signing” provision, the Fair Trade laws in 45 states began to wobble. Emboldened by his victory, Schwegmann became the poster-child

for free pricing, continuing his fight in *Eli Lilly & Co. v. Schwegmann Bros. Giant Supermarket*, which pushed for the right of retailers to set their own drug prices.¹³

State by state, these price floors fell to retailer lobbyists who believed that lower costs of goods would mean higher profits. By 1958, one of Schwegmann's top executives was testifying in Congress before the Arizona department store owner — and arch-conservative — Senator Barry Goldwater. To a retailer like Goldwater, that discounters' cost of goods was only 7 percent of their revenue — compared to department stores' average cost of goods nearly 10 times as much — Goldwater replied, “if we could get merchants in this country to operate this way at seven percent, you will be the saving grace for the merchants in this country.”¹⁴ Cheap goods meant high profits for retailers — or so Goldwater thought. By the early 1970s, only 12 states still had Fair Trade laws on the books.¹⁵ In 1975, Ford recognized in federal law what had already been decided at the state level.

Fair trade laws saved discounters, but condemned pricier alternatives, like department stores. Moreover, the gradual removal of minimum prices and increasing productivity meant that manufacturers like General Electric faced pressure on its profits from its buyers in manufactured goods, forcing them to cut back on areas of the firm that were not “profit centers” like R&D.

Meanwhile GECC continued to steadily finance consumer installment credit and dealers' inventories. In 1960, GECC financed over 500 million dollars' worth of retail sales and nearly 250 million dollars in wholesale inventories a year, but that steady world was already coming apart. the growth of GECC's profits was threatened, Charles Klock, president of GECC wrote in its annual report, by the “increasing variety of revolving credit plans.”¹⁶ Revolving credit eased the purchasing of amounts both “large and small” enabling consumers to bypass the specialty financing of GE dealers.¹⁷ At the same time, because of the “large number of low-balance

transactions that must be financed,” revolving credit seemed “unpromising” to GECC, but over the long term, because of revolving credit’s prevalence, Klock thought that “profitable methods must be found to meet the need for this type of credit.”

Shoppers who had become used to buying a little bit here and there on revolving credit at department stores balked at filling out a new installment contract for each new washing machine or vacuum cleaner. While GE sales continued to expand, credit sales actually fell. So GE rolled out a new revolving credit program in 1961. Revolving credit for durable goods flew in the face of conventional wisdom that held revolving credit was just for soft goods like shoes and socks. But shoppers wanted what they wanted and GE was happy to give it to them.

Installment credit didn’t pay anyhow. Most of GECC’s write-offs by the early 1960s were not for unpaid debts, but for unsellable repossessed goods. Highly productive manufacturing that made goods cheap enough for the discount store also meant that there was no longer a viable resale market. The world of cheap goods not only destroyed traditional retail, it also destroyed traditional credit — as well as the occasional lunch.

Consider the plight of a local refrigerator dealer in 1959, who, in addition to the misfortune of having to attend a credit manager's convention, also had to sit next to H. A. Jaffe. Managing the credit department of the New York-based department store chain S. Klein, which had heavily promoted the use of revolving credit among its customers, Jaffe had considered the changing nature of credit deeply. Jaffe knew that installment credit was perfect for a world of expensive, durable things. If you missed a monthly installment on a refrigerator, the debt collector could come and gets the refrigerator. In a world of expensive goods that refrigerator got resold, perhaps at a discount, but it would be resold and some of the outstanding debt could be repaid. This refrigerator dealer seated next to Jaffe at lunch was the biggest in the state, proudly

selling 20,000 refrigerators a year. Making small talk, the dealer told Jaffe that for every refrigerator sold, he had to register the installment contract at the city hall, so that in case of default, the refrigerator could be repossessed. Every time he registered a contract, it cost \$1. Perhaps a better accountant than conversationalist, Jaffe simply asked him how many refrigerators he had repossessed that year. Staring dumbfounded at Jaffe, the dealer got up from the table, saying, “Oh, you, you spoiled my whole luncheon. We have repossessed twelve and spent over \$20,000 on recording fees through the year!” For cheap goods in an era of near-constant repayment, repossession and the installment contract were money-losers. Many stores stopped filing their contracts and even stopped repossessing, since the goods could not be resold, and simply used the threat as a psychological lever for collection.

Collecting the debt mattered, not the merchandise itself. The merchandise, once sold, was basically worthless. GECC’s dilemma, then, was not unique. Repossession and resale — outside of cars and houses — could not replace the value of debt. Without that ability to reclaim the value of the debt through resale, there was no advantage to the lender to have a secured installment loan. What made a loan a good loan was the borrowers “ability to pay,” not the “replevin value” (the repossessed value of the goods).¹⁸ Having the goods repossessed could no longer absolve the buyer of the debt. The separation of debt obligation and legal title that would have made financiers nervous in the 1920s created new opportunities for financiers’ investment in the 1960s.

Unlike most discounters, General Electric had a fabulous bond rating. GECC financed all those loans by issuing corporate debt. These bonds would pay out 5% a year, but, until the early 1960s, GECC could only charge its customers the price for installment credit of about 6% a year.

With revolving credit, GECC could charge customers what department stores did — 20% a year. Suddenly, GECC could become wildly profitable.

By 1964, GECC found that its credit sales recovered. And because of the higher interest rates on unsecured debt, profits actually increased. The once-stagnant GECC became a hotbed of activity. Klock reported in 1964 that “practically our entire increase in volume and profitability came from new types of financing we introduced in the last five years.”¹⁹ In other words, from 1960 to 1965 GECC reinvented itself from an installment contract finance company into a revolving credit finance company. The annual reports of this period reported enthusiastic forays into credit reporting, computer billing and collection, and other techniques required for revolving credit. With its deep pockets, GE invested in large-scale credit processing facilities at regional computing centers.²⁰ With the expansion of such capacity for evaluating revolving credit applicants and the ability to process its billing, GE now had the ability to extend its computing power beyond its own dealers. Though expensive, these systems enabled complicated billing schemes heretofore unknown to retail. General Electric didn’t do things half-way, and found itself with more capacity to process revolving credit than its dealers required.

Exactly at the moment when GE had the capacity to lend, discounters found themselves with a need to lend. Revolving credit required much more capital than installment credit; it also required the ability to manage a revolving credit program. Though department stores had led the way, habituating consumers to borrow on their cards and innovating organizational techniques to make revolving credit profitable, other retailers balked at investing their capital in their customers’ debts. More important to the rapidly expanding discounters was where would a borrowed dollar best be invested?

In 1966, GE began to offer its credit services these retailers in need of a credit system, but without the ability to process the loans or to provide the capital. Caldor's, a regional discount chain, collided with General Electric, an international industrial firm, and this collision (and many others like it) pushed GE towards finance. Like installment finance companies had done in the 1930s, GECC offered "private label" credit to retailers unable or unwilling to finance their own revolving credit plans.²¹ Retailers would maintain brand loyalty but use GECC's financing and machines.²² Discount chains, like Caldor's, could now offer their own "Caldor Credit Card" like a more well-to-do department store.²³ Customers would appreciate Caldor's trust in them and would, like department store revolving credit customers, tend to shop more, but unlike at a Federated department store, GECC and not Caldor's would reap the profits on the debt. By 1968, over half of GECC's profits came from this relatively recent turn to revolving credit.

Much more so than department stores, discounters like Caldor's relied on outside firms to provide credit to their customers. Whenever bank cards penetrated a new market, department stores resisted them, but discounters welcomed them. But during most of the 1960s, credit was run through the store and financed by a third-party. A 1966 survey found that 80% of discounters' credit plans were run by outside financial institutions. Caldor's could offer the "Caldor Credit Card" but GE would take care of everything. Caldor's could profit on the sales and General Electric would profit on the loan. It was a win-win.

Consider, however, the meaning of this new direction for GECC. When GECC was founded it facilitated the profits of manufacturing. Finance was a means to an end. With the rise of private label consumer finance, however, finance had become an end in itself. Even consumer credit for everyday goods could now be easily resold and financed, indirectly, by capital markets. GE had quickly become one of the world's largest finance companies.

GECC helped sell not just GE products but all products – even products made by competitors. Consumer finance became a source of profit in itself, not as a means to profit from manufacturing. In less than a decade, GECC went from helping GE realize its profits on mass production of televisions to financing soft goods at Caldor's. By 1969, one in twenty-five households was using GECC credit, whether it recognized it or not.²⁴ While GECC's profits had stagnated in the postwar period, after 1961 when revolving credit was introduced GECC's net earnings increased, on average, 17 percent a year.²⁵ In 1969, recognizing the strength of its new financing schemes, GECC separated revolving credit off from its Home Products division into its own division. Consumer financing had become completely autonomous from GE's manufacturing wing. GECC's 1972 *Annual Report* noted that the company provided "personal credit card service to mass merchandisers of soft goods, housewares, cosmetics, luggage and just about anything sold by the average department store or discount chain."²⁶ GECC's revolving credit division had only a tangential relation with GE's core manufacturing business and through its private label revolving credit business financed the purchase of goods manufactured by GE's competitors.

A dollar is a dollar. The source does not matter for the investor, even if the larger consequences for the economy could be dire. Every dollar GE invested in consumer debt was a dollar not invested in a factory. Those GE factories were the mainstay of the good postwar jobs. Consumer finance, in contrast, created high-paying jobs for a few at the top, and a lot of low-paid clerical work for everybody else. The middle-ground of middle-class manufacturing jobs began to disappear. Disconnecting its finance subsidiary from a direct connection to their manufactured goods, GECC began a long road to becoming GE Capital, one of the largest financial companies in the world today and one that has no privileged relationship with the

products of General Electric, outside of the dividends paid to the shareholders who own both companies.

The private label schemes of General Electric and other finance companies enabled discounters to match the credit offerings of department stores. Department stores by the late 1960s offered little, then, to the budget-constrained customers. Prices were higher. Credit was just as liberally granted – though surreptitiously financed by GE. In 1960, department stores, the leading category of retailers, had had four times the sales volume of discounters, but only five years later discount stores had a higher sales volume than any other kind of retailer — including department stores.²⁷ The high-price, centralized retail era had ended, and a discounted, distributed, financialized era of retail emerged, remaking not only retail but manufacturers. Our capital markets didn't support investment in the real economy but in consumer debt—which when it crowds out real investment hurts the economy.

Neutron Jack and GE Capital

Consumer credit changed many firms, whether industrial or financial. A young John Reed rode the credit card business to the CEO chair at Citibank. But the centrality of finance to General Electric is perhaps more surprising, and it was there that another young executive named Jack Welch turned finance into power. In 1977 Welch was given the reins at GE Credit, the division that managed all those revolving credit accounts. With \$11 billion in assets at the beginning of the 1970s, the division had a lot of possibility but was not at the sexy center of GE's manufacturing, which had been building earth-shattering engines, in fact the first ever jet engines, since World War II. With space shuttles and jets filling the skies and swelling the hearts of patriots, it was hard to convince people that light bulbs and credit cards could possibly compare. Taking the profits from selling light bulbs and investing them in debt, Welch began to

shine at General Electric. 350 retailers maintained private label credit programs through GE in 1979.²⁸ By 1980, GE Capital had \$70 billion in assets, including \$9 billion overseas.

When Jack Welch took the helm at GE in 1981, based to a large-degree on his success in consumer finance, his vision was clear: “Finance is not an institution—it has to be the driving force behind making General Electric the most competitive enterprise on earth.” Older divisions, like the lighting division that he had managed during his rise to power, would be continued, but the profits would be reinvested in financial products. Divisions that were losing profitability, like the one that made toasters and clocks, were sold. American manufacturers could not compete on low-cost products from Asia. By the mid-1980s, 70 percent of non-automotive consumer goods came from Asia, brought across the Pacific in container ships. The general electrical products that had given GE its name were no longer even made by the company. The purpose of GE was to make money. He, no doubt, agreed with U.S. Steel President David Roderick's assessment in 1979 that “the duty of [U.S. Steel's] management is to make money, not steel.” Unfortunately, while making money is good for U.S. Steel, making steel created more good-paying jobs for average folks.

It is hard to convey the kind of generational revolution that this kind of financial thinking amounted to. American steel had beaten the Nazis. American jet engines intimidated Communists. Turning the great centers of American manufacturing into financial companies, which, as Henry Ford would have been the first to assert, produced nothing, was appalling to many CEOs who prided themselves on making *something*. In a joint interview in 1996, *Fortune* magazine asked Jack Welch and Roberto Goizueta, then the CEO of Coca-Cola, about the rest of the decade. For Welch the answer was clear, “I think, without question, that financial services, because of the opportunities available, will become an increasing mix of our business. That is

absolutely going to happen.” The CEO of Coca-Cola, demurred, surprised, “I would never find excitement in the financial services. I dislike to produce something that I could never touch.”

While GE's profits grew, GE's manufacturing in 1995 was ten percent less than in 1980, having closed 43 percent of its factories. In 1980, the year before Welch took control, GE employed 285,000 people in the U.S. In 1998, as the company financialized, it employed only 165,000. For Jack, and for successful American corporations, the rise in profits, from turning manufacturing capital into financial capital, mattered more than all those good-paying factory jobs — and he had no choice. CEOs have a responsibility to the shareholders to produce more profit. A dollar invested in debt made more money than a dollar invested in a factory. The benefit was clear for these CEOs. For the country as a whole, however, the rising profitability of finance came at a devastating cost as the largest American industrial corporations began to see finance as the road to growth. More money, it seemed like, could be made by financing purchases than by making the goods to be sold.

If the increase in borrowing only unlined the economic troubles of Americans, for lenders, the borrowing boom of the 1980s proved immensely profitable. Though John Reed's consumer finance division had lost tens of millions in the 1970s, the hundreds of millions earned in the 1980s more than made up the loss. The growth of General Electric's financial divisions revived the stagnating company and led Jack Welch to be celebrated as one of the country's greatest CEO's. Credit cards had become tremendously profitable, reorienting commercial banks and manufacturing companies toward consumer finance as never before.

The shareholder value revolution prized Welch and the new turn at GE. Stock prices grew like never before through the 1980s and 1990s. Even with multiple 2:1 and 3:1 stock splits the price continued to rise, reflecting the market's belief in the profits of finance.

Conclusion: After The Crisis

In the aftermath of the financial crisis of 2008, which hit GE Capital as hard as any other financial institution, the relative importance of GE Capital faded a bit in importance. Yet its profits remain central to the overall strength of GE. What has changed, however, is the relative *efficiency* of the allocation of assets to GE Capital relative to the rest of GE. The ratio of net income to assets—a measure of how many dollars of assets it takes to create a dollar of net income—is nearly double in the non-financial parts of General Electric. Perhaps the same profit-maximizing allocation that once funneled non-productive capital into all that consumer debt will rebalance itself at General Electric. That rebalancing, however, is not inevitable but a choice made by the leadership of General Electric, which faces as much bureaucratic inertia now as it did in 1960. Only by the widespread market demands of consumers and suppliers could such a shift occur. Such a behemoth can struggle along with its existing investments for years to come, choking off potential jobs in the process.

Consumer finance in the 20th century was essential to the rise of General Electric. When GECC—and price controls—allowed GE to invest deeply in R&D and production, General Electric did bring good things to life. Only with the shift to finance as an end in itself did credit begin to end those good things—and the good life. To me it makes more sense to have vibrant R&D and manufacturing if the cost of that vibrancy is a lack of innovation in retail and finance. While economists and policymakers talked a lot about the ways in which government spending can “crowd out” business spending, we have not been attentive enough to the ways in which consumer investment crowds out other forms of business investment. Every dollar invest in consumer debt is a dollar not invested in R&D or production, things that actually create real value. The lesson of financialization is not to end consumer finance but restore it to its proper

place in the capitalist order. Policies to restore the balance between the financial and industrial economies must recognize how to restore that balance so that the good life can come back again.

¹ Federal Trade Commission, *Report of the Federal Trade Commission on the Household Furnishings Industry*, vol 3, *Kitchen Furnishings and Domestic Appliances*, 6 October 1924 (Washington: GPO, 1925), 38.

² Ibid.

³ Quoted in *House Furnishings*, vol 3, 39.

⁴ Ibid.

⁵ "Target's new thrust and what it takes," *Discount Merchandiser* (April 1969), 59.

⁶ *Profile*, iv.

⁷ "Life Study," *Discount Merchandiser* (June 1962), 64.

⁸ "Caldor: Sales are good close to home," *Discount Merchandiser* (October 1963), 36.

⁹ "109 leading discounters," *Discount Merchandiser* (July 1963), 30-31.

¹⁰ "Credit is nice but it can cost you," *Discount Merchandiser* (July 1965), 44-45.

¹¹ Bernard Korn, "All About Credit Plans," *Discount Merchandiser* (May 1962), 58.

¹² "Retail Trade: Blow against Price-fixing," *Time* June 4, 1951

¹³ See Solomon Sherman, "Whither Fair Trade Laws? An Appraisal of the United States Supreme Court Position in the Light of *Lilly v. Schwegmann*," *American University Law Review* (December 1953).

Solomon G. Sherman

¹⁴ Quoted in David Rachman, "What Lies Ahead for the Discounters?", Discount Operators National Show, Modern Retailer's Seminar Proceedings, 1961; Malcolm McNair, *The American department store, 1920-1960: a performance analysis based on the Harvard Reports*, Bureau of business research bulletin no 166, Harvard university (1963), Baker Library, Harvard Business School, 25.

¹⁵ *Kiplinger's Personal Finance* (June 1974), 36.

¹⁶ GECC, *Annual Report 1961*, 5.

¹⁷ GECC, *AR 1962*, 4.

¹⁸ Ibid.

¹⁹ GECC, *AR 1964*, 6.

²⁰ GECC, *AR 1966*, 3.

²¹ GECC, *AR 1966*, 16.

²² Other programs existed like "Unicard," which allowed consumers to use a card at multiple stores, but retailers were loath to pay the high fees to an outside firm and risk the loss of consumer loyalty. More than anything, department stores in the 1960s wanted to maintain their sales growth. Programs like Unicard threatened that and ultimately failed. Private labeling schemes, like GECC's however, grew. (On Unicard see Victor Brown, "What the Credit Manager Should Know About Financing Receivables?" *Credit Management Year Book 1963-1964* (New York: National Retail Merchants Association, 1963), BAK, 151.

²³ GECC, *AR 1968*, 8.

²⁴ GECC, *AR 1969*, 7.

²⁵ GECC, *AR 1972*, 6.

²⁶ GECC, *AR 1972*, 9.

²⁷ Except grocery stores. "Share of major retail sales by type of store," *Discount Merchandiser* (June 1966), 63.

²⁸ "Bank Card Holdouts Fading Under Pressure," *Chain Store Age Executive with Shopping Center Age* (February 1979), 41.