

**Experts, Ideas, and Social Welfare Policy:
The Russell Sage Foundation and the Uniform Small Loan Law, 1910-1940**

Introduction

Ideas and ideology are significant factors in explaining the timing and formulation of social welfare policies. However, most accounts of policy-making leave unexplained the specific processes through which policy ideas and paradigms are translated into political action and legislation (Campbell 2002). This paper begins to fill this gap in the literature by examining how the Russell Sage Foundation (RSF)—a public-interest research and advocacy organization—defined social ills, developed legislation, and advocated reforms that redirected small loan policy and practices in the early twentieth century. The paper examines in detail how RSF's expert staff initially defined the small loan problem, and how they changed their policy ideas over time when confronted with political pressures, new information, and institutional constraints and opportunities. This study also addresses the dialectical relationship between political actors' ideas and interests by illustrating how RSF staff adjusted their policy ideas in order to secure the Foundation's institutional interests and political viability. Finally, this case study challenges notions, prevalent in historical institutionalist literature, that ideas must "fit" with existing policies and institutional structures in order to be successful in shaping policy outcomes.

The Russell Sage Foundation was active on behalf of consumer credit reform between 1910 and 1940. These three decades spanned dramatic turns in American history, from the Progressive Era through the First World War, the Great Depression and to the New Deal. As one of the leading research and social welfare advocacy institutions of the time, RSF was representative of a broad and diverse reform movement that sought to remedy the poverty that

accompanied America's industrialization, the social dislocations brought on by new waves of immigration from eastern and southern Europe, and the political corruption associated with machine party politics. By the time Progressivism entered the White House in 1901 with the presidency of Theodore Roosevelt, reformers had already begun to address many of these problems at the local and state levels. In 1889, for instance, Progressive activist Jane Addams founded the Hull House, a Chicago community settlement house that provided education, health services and life-skills training to immigrants and the working poor. Muckraking exposés of the living and working conditions of the urban poor, such as Jacob Riis' famous 1890 study, *How the Other Half Lives*, sought to transform the middle class public's awareness of the social consequences of industrial capitalism. Meanwhile, citizens' leagues organized in cities across the U.S. to protest political corruption and to encourage greater political involvement by non-partisan organizations for the purpose of offsetting the power of local party bosses (Gould 2001). Women's groups were particularly important during the Progressive Era; in addition to leading the temperance, settlement house, and women's suffrage movements, women's groups played an important role in securing social legislation protecting mothers, workers and children. Rallying under the dual philosophies maternalism and "social housekeeping," the General Federation of Women's Clubs, the National Consumers' League and the National Congress of Mothers (the forerunner of the PTA) successfully lobbied for laws restricting women's working hours and child labor, and succeeded in establishing pensions for single and widowed mothers in forty states by 1920 (Skocpol 1992; Storrs 2000).

A major feature of the Progressive Era was a new emphasis on using science to understand and solve social problems. Progressives argued that only a public-spirited, non-partisan elite, guided by scientific principles, could promote social progress and save democracy

from being corrupted by powerful corporate interest groups. In the early part of the twentieth century, non-governmental organizations such as foundations, research institutes, and universities began producing a large body of policy-relevant reports and studies, which they actively shared with lawmakers in order to influence policy decisions. While most foundations were founded for very specific purposes—for instance, to provide scholarships to music students—a few, including the Russell Sage Foundation, were created for the broader purposes of researching and finding preventative solutions to social problems like poverty and crime (Sealander 1997). Because of their affiliation with wealthy elites, however, these foundations occupied a somewhat precarious position within the Progressive Era social reform landscape. In some circles, names like Rockefeller, Carnegie and Sage were regarded with suspicion, and Foundations were often accused of acting as institutional protection for “the Empire of Organized Wealth” (Sealander 1997). Pointing out that these business tycoons never would have amassed such great wealth had they themselves been restricted by the labor laws their Foundations were supporting, these critics assumed that Foundations had hidden agendas and were insincere in their commitment to public welfare. One of the most vocal critics was Fiorello LaGuardia, who, as congressman from New York, made a career in the 1920s and 30s of attacking the Russell Sage Foundation, which, he said, with its “theories and statistics” was the “evil heart of the Charity Trust” (Sealander 1997). This suspicion regarding the true motives of foundations was an obstacle RSF was forced to contend with throughout its early years.

The Russell Sage Foundation was established in 1907 by Margaret Olivia Sage, widow of the wealthy financier Russell Sage, for "the improvement of social and living conditions in the United States." In addition to its early projects in low-income housing, urban planning, social work, and labor reform, RSF was actively involved in consumer credit reform for over thirty

years. In 1910, the Foundation created its Department of Remedial Loans, headed by Arthur M. Ham (74), an economist who had recently completed a master's program at Columbia University. Ham's department was devoted specifically to analyzing and developing policy solutions for the loan shark problem, which was pervasive in many cities at that time and which had become an issue of concern for Mrs. Sage after receiving thousands of letters from debtors appealing to her Foundation for help. Loan sharking was a topic Ham knew something about, as he had, while still in school, received a grant from the Foundation to write his master's thesis on the small loan problem in New York. On the basis of Ham's research, RSF's earliest efforts focused on promoting the development of remedial loan societies—semi-charitable loan agencies that charged low rates and restricted the dividends they paid out to shareholders—because it was believed that they would “provide such competition as would result in an improvement of the methods commonly employed by money-lenders and to afford an object lesson that would attract reputable capital into the business” (Ham 1921). However, experience proved that there were never enough remedial loan agencies to actually create real competition for loan sharks. As predatory practices continued to dominate the small loan industry, Ham came to the conclusion that the problem could only be solved if the industry could be opened up to legitimate commercial lenders. This could only happen if existing usury laws were changed to allow small loan lenders to charge a higher rate of interest than the ordinary banking rate of 6 percent per annum.

In March 1911, Ham's research and similar work done by Ansley Wilcox, a Buffalo attorney, provided the basis for a preliminary draft of the Uniform Small Loan Law (1480). The USLL initially sought to raise the interest rates lenders could charge on loans of \$300 or less from their current level (ranging from six to twelve percent a year in most states) to three percent

a month. (Later, after negotiations with the American Industrial Lenders' Association, this rate was raised by half a percent). The law also prohibited any additional fees and required the licensing and supervision of small loan companies by the state's banking department or some other similar regulatory body. The rationale behind the idea that interest rates should be raised was as follows: because small loans were so risky, and because the lending costs associated with small loans were fixed regardless of their size, most legitimate small loan companies could not maintain adequate profit levels at the current interest rate. Therefore, few legitimate lenders were willing to enter the small loan business and instead, the market dominated by predatory businesses that charged as high as four hundred percent or more yearly in interest. Ham believed that if the small loan industry could be made more attractive to legitimate lenders, loan sharks would be driven from the market by increased competition from lenders that offered fairer terms. Although the law was intended to represent a compromise serving the interests of both borrowers and lenders, RSF always presented itself as being concerned first and foremost with protecting the interests of low-income borrowers.

By 1911, Ham was actively involved in lobbying the state legislature of New York in support of small loan legislation, and within the next year he expanded his efforts to several other states, including New Jersey, Maine, the District of Columbia, and Massachusetts. The first state to pass a complete version of the USLL was New Jersey in 1914; by 1917, a version of the law had been passed in thirteen other states. In most of these states, Ham's role in pushing for legislation was substantial. He coordinated advocacy campaigns with state legislators and state and local interest groups such as lenders' associations, Better Business Bureaus, labor unions and social welfare organizations. He visited capitols and gave speeches, testified at hearings and networked with legislators and other "prominent men" to secure their backing for the USLL. He

wrote many articles and editorials for local newspapers, secured newspaper editors' support and organized newspaper publicity campaigns. Ham's successors at the RSF Department of Remedial Loans continued this work over the next thirty years, and by 1943 some version of the Uniform Small Loan Law had been adopted in 34 states (see Table 1). Many of the letters, memoranda, speeches, articles, reports and other documents that RSF produced as part of its efforts on behalf of the USLL have been preserved at the Library of Congress. This archival material presents a rare opportunity to trace in detail the genealogy of the USLL as policy proposal, enabling us to follow the birth, transformation and diffusion of a particular policy idea.

The Uniform Small Loan Law was unusual because unlike other Progressive Era and New Deal anti-poverty legislation, it attempted to help poor people through market intervention, rather than through the expansion of social welfare benefits programs (Carruthers and Guinnane 2004). Most of the literature on the development of social welfare policy focuses on the welfare state, or the system of public social provision and insurance programs, such as mother's pensions or unemployment insurance. Recently, however, welfare state researchers have expanded their focus from welfare states to 'welfare regimes,' or the system of social provision and services provided not just through the state, but through the market (such as private child care services or health insurance) and the family, as well (Esping-Andersen 1999, O'Connor, Orloff & Shaver 1999). Jacob Hacker (2002), for instance, has argued that students of the welfare state must include employer-provided benefits such as health insurance and pension plans in their analyses, especially since these private provisions account for more than one-third of welfare total welfare expenditures in the United States. Moreover, he points out that such private provisions are inextricably linked to the public policy sphere in that they are undergirded by governmental rules and policies such as tax incentives and regulations. Similarly, Christopher Howard (1997) has

examined how American tax policy has created a “hidden” welfare state through programs such as the Earned Income Tax Credit and home mortgage tax write-offs. When one includes these types of tax-based provisions, he argues, America’s total welfare spending is actually on par with that of other modern welfare states. The expansion of what is traditionally meant by “welfare state” through interventions such as these by Hacker and Howard opens the door for including other types of provisions and regulations under the “welfare regime” rubric, as well. In particular, market regulations such as the USLL have significant social welfare effects in that they protect workers and their income from exploitation by employers and lenders. Improving workers’ access to credit at fair rates is a way to make the distribution of wealth in a society more fair and equal; hence, such types of market regulations can also be conceptualized as belonging to a nation’s “welfare regime”.

Literature Review & Theoretical Framework

Theories of Welfare Policy Development: Power Resources and Historical Institutionalism

In the 1970s and 80s, power resources analysts pushed the sociological understanding of welfare state development beyond deterministic explanations based on economic conditions or national cultures. Recognizing that societies are composed of groups with competing stakes in the welfare state, these theorists argued that welfare policy changes occur when social groups mobilize political and economic resources to seize political power and advance their perceived material (typically economic) interests (Hicks and Misra 1993). Thus, they argued that social welfare provisions develop primarily as a result of working-class mobilizations and the political ascendance of labor parties (Korpi 1978). More recently, power resources analysts have focused on the importance of cross-class coalitions in building strong welfare states (Esping-Andersen

1998). While the power resources approach represents an advance over deterministic theories based on the “logic of industrialism” and national cultural values, the approach is nonetheless flawed for several reasons. First, it fails to account for certain specific historical developments. For instance, empirical analyses show that union membership in the United States was actually on the decline immediately prior to the New Deal, and in Great Britain it was actually the Liberal Party, not the Labour Party, that led to the 1908 breakthrough in social welfare legislation (Orloff 1993, pp. 69-70). Second, power resources theorists typically focus exclusively on class and do not acknowledge the importance of political mobilizations based on other types of identity, such as race or gender, which have been central to the development of assistance programs for low-income families and widows in the United States and elsewhere (Quadagno 1990; Koven and Michel 1990; Skocpol 1992).

Historical institutionalist or state-centered theories have challenged the power resources approach by arguing that the state is not merely the neutral arena in which class-based interest groups duke out their political battles. Rather, institutionalist accounts have shown that government institutions constrain and provide opportunities for the political actions of interest groups, and that state actors themselves have some degree of autonomous influence over the enactment and implementation of welfare policies (Skocpol 1985, 1992; Orloff 1993). Furthermore, the feedback effects of already-existing policies create path dependencies and political constituencies that further constrain innovation. As Theda Skocpol argues, “Social policies in the United States (and elsewhere) have not developed simply in tandem with capitalist industrialization or urbanization; and they have not been straightforward responses to the demands that emerging social classes place upon governments. Governmental institutions, electoral rules, political parties, and prior public policies...create many of the limits and

opportunities within which social policies are devised and changed by politically involved actors over the course of a nation's history" (1992, p. 527). In her earlier work, Skocpol argues even more forcefully that beyond merely creating institutional constraints and opportunities for political action, state actors actually have the potential for partially autonomous action in their own right, and can therefore launch policy reforms to pursue their own political goals or to resolve conflicts between other social actors (1985, pp. 9-15). Thus, by ignoring the way state structures and existing policies mediate between political action and policy outcomes, and by overlooking the state's capacity for autonomous action, power resources analysts have offered incomplete explanations for the timing and character of particular welfare policy developments.

Finally, in addition to the limitations discussed above, power resources theorists fail to problematize and deconstruct their understanding of actors' interests, preferring instead to treat interests as flowing fairly deterministically from actors' socio-economic status positions. Power resources theory is based on a premise of rational choice behavior in that it assumes that political actors are able to recognize their own "objective" interests and act on them accordingly. The concept of "interests," however, is extremely tricky, and one should not assume a clear-cut direct relationship between actors' class or status position and their perceived political interests and goals. There are many examples of individuals and groups acting (or not acting) in ways that seem to run directly counter to their interests, and even the existence of "true" interests is subject to debate, as some scholars argue that interests are never simply "given," but are actively constructed and refined during the course of political action and interaction with political institutions (Clemens 1997, Weir 1992). Moreover, interests should be understood as encompassing more than simply "class interests" or the desire for greater wealth and economic security. Political actors, including policy experts, are often motivated by non-economic goals

that are nonetheless “interested” in that they promote their political power, social status or ideological values and opinions.

Ideology, Ideas and Social Policy

Both power resources and institutionalist theories of welfare state development have been criticized for not taking fully into account the role of ideas and ideology in motivating political action and influencing policy outcomes (Skocpol and Rueschemeyer 1996, Beland 2005). These approaches do not necessarily ignore ideas and ideology, but they tend to treat them as epiphenomenal dependent variables that are ultimately determined by more “fundamental” structural conditions. More recently, institutionalist scholars have begun to re-explore ways in which ideology, like institutions, provides “resources for and constraints on collective action and state policy” (Orloff 1999). In addition, they have begun to examine how and under what conditions particular policy-relevant ideas develop, evolve, and shape policy outcomes.

Before continuing, it will be helpful to define and conceptually distinguish between the terms “ideology” and “ideas” as they are used in this paper. While ideologies operate in the background of the policy process, serving to ground and direct political actors’ goals and actions, policy ideas operate in the foreground and are much more specific and flexible than the underlying ideologies they are based upon. Certain core ideological beliefs can operate at a nearly universal taken-for-granted level; opposition to these most deeply held ideological convictions may be considered taboo and beyond the scope of civilized political discourse. Political ideologies can also be less hegemonic and be used to distinguish between different political actors by identifying them as belonging to a particular ideological camp (liberal, conservative, socialist, etc). As Louis Althusser puts it, ideology “hails,” “addresses” and

“recruits” individuals as subjects (Althusser 1971); thus, political actors exercise limited agency by choosing from a more or less, but not infinitely, diverse “menu” of ideological positions. This menu of ideological choices and discourses allows individuals to develop critical understandings of their own or others’ material and social situations, and enables them to define their concrete political interests. This process of ideological identification, interest definition and goal articulation occurs largely through active political discourse and participation; individuals’ and groups’ political interests are not “given,” they are learned. In that they are an important part of individuals’ coherent sense of self, political actors’ ideological identifications are likely to be more stable over time than their specific policy ideas, which are more liable to change as they become impractical in light of new information or changing institutional conditions.

Some scholars, such as John Campbell (1998; see also Beland 2005), simply use the term “ideas” to capture both ideas and ideologies, while distinguishing between different *kinds* of ideas depending on the extent to which they operate in the foreground or the background of policy debates. For instance, Campbell distinguishes between “background” ideas, such as paradigms, and “foreground” ideas, including programs and frames. Campbell defines paradigms as “cognitive background assumptions that constrain action by limiting the range of alternatives that policy-making elites are likely to perceive as useful and worth considering” (385). This, to me, sounds more like ideology, but perhaps this is merely an issue of semantics. Programs, on the other hand, are “policy prescriptions...that facilitate action among elites by specifying how to solve particular policy problems” (385); in this paper, this definition comes closest to what I mean when I talk about policy “ideas”. Finally, Campbell defines frames as strategically chosen “symbols and concepts that help policy makers to legitimize” and sell policy solutions to the public and to one another. Frames are an important element in understanding why some policy

ideas are politically more successful than others, but they are less relevant in understanding the role of ideology and ideas in *motivating* political action in the first place.

Political ideas and ideologies differ in the extent to which they are contested and malleable. Using a slightly modified construction Peter Hall's (1993) theory of "policy learning," we can conceive of political ideas and ideologies as operating at three levels that are progressively more immune to policy learning and increasingly difficult to change. At the first level are ideas regarding the *specific instruments* used to accomplish broader policy goals. For instance, in the case of the Uniform Small Loan Law, first order ideas would include the specific interest rate for small loans that should be legally permissible. According to Hall, first order policy changes occur quite frequently in "normal policymaking" as practitioners learn from their mistakes or are confronted with new external conditions that require modifications in their approaches. Second order ideas are more stable and involve the *basic techniques* used to attain broader policy goals. For instance, in its fight against the loan sharks the Russell Sage Foundation initially focused on creating remedial loan societies; however, after several years of experience, this method was judged ineffective and RSF turned toward promoting the USLL. This shift can be regarded as a second-order policy change because it altered the basic strategy while holding constant the overarching goal. According to Hall, second-order changes are also part of "normal policy-making" but are less frequent than first-order changes because they involve significant revisions of strategy and reallocations of resources. Finally, third-order ideas are what Hall calls policy "paradigms;" these ideas are more like ideologies in that they involve fundamental beliefs about what the broader goals of policy should be. The basic ideological paradigm underlying the USLL was new liberalism, or the ideology that argued that the state should engage in some degree of market regulation in order to protect wage earners from the

poverty and unemployment that accompanied industrial capitalism. Third order changes involving wholesale paradigm shifts occur but rarely and usually happen in response to significant past policy failures (Hall 1993). The Russell Sage case discussed in this paper does not involve a third order paradigm shift because, in spite of its move away from private competition toward interest rate regulation as the best antidote to predatory lending, RSF always fell squarely within the new liberal camp.

Ideas, Experts and Institutions

While any political actor can be motivated by an idea, the body of literature examining the role of ideology and ideas in policy-making stresses the particular importance of policy experts. The modern social sciences developed alongside industrialized western states' early efforts to craft welfare policies and programs aimed at redressing the social problems brought on by industrial capitalism. As modern states developed their managerial capacities and expanded the scope of their ambitions beyond conscription and extraction toward actively promoting economic productivity and the social welfare of citizens, a new demand for usable social information arose (Katznelson 1996, Scott 1998). During the late nineteenth and early twentieth centuries, European and American policy experts and social scientists provided social information, expert advice and policy proposals which governments sought in order to promote economic productivity and social welfare. In an when American politics were dominated era by patronage and interest group politics, experts commanded enjoyed high credibility based on their claims to non-partisan, "objective," rational social scientific knowledge (Skocpol and Rueschemeyer 1996, O'Connor 2001). In spite of this reputation for impartiality, however, policy experts' input was both cognitive/descriptive and normative/prescriptive, and even the

seemingly neutral act of describing a social problem like poverty amounted to making a moral political statement about what was to be done (Skocpol and Rueschemeyer 1996).

Much of the historical institutionalist literature on policy experts concentrates on explaining when and under what conditions experts' ideas are most likely to influence policy. This literature shows that experts are most influential when they are able to make strategic alliances with other powerful political actors and when institutional conditions "fit" with experts' ideas and strategies (Skocpol and Rueschemeyer 1996). Several scholars have conducted empirical studies of the ways in which institutions and political alliances create constraints and opportunities for policy experts trying to influence policy. For instance, in a comparison of two providers of policy-relevant ideas—the German *Verein für Sozialpolitik* and the English Fabian Society—Rueschemeyer and Van Rossem (1996) find that the type of access the two groups had was shaped in part by the differing bureaucratic state structures in the countries in which they were active. Because most of the *Verein's* members were civil servants by virtue of their academic appointments at public universities, they were well integrated into Germany's strong bureaucratic state apparatus and were therefore quite influential in shaping the ideological outlooks, if not the specific policy goals, of German political elites. In contrast, in England, where state bureaucracy was less developed, the Fabians' influence had more to do with its members' social prestige and their personal ties to British lawmakers. Similarly, Libby Schweber's (1996) analysis of progressive reformers in the United States and Britain suggests that British reformers' access to politics was based primarily in social connections with influential politicians, while Americans reformers' access depended on their ability to form coalitions with interest groups such as organized labor and business organizations. These differing strategies reflected differences in the British and American political settings: whereas

British policy was formulated “within the corridors of government” by an elite group of political leaders, American policy-making was more responsive to pressures from outside lobbyists. This finding reflects the fact that the Progressive Era in the United States was characterized by the institutionalization of interest group politics and the multiplication of politically active business and civic associations (Clemens 1997). In this political landscape, policy experts were required to make alliances with organized interests—business associations, welfare and charity organizations, labor unions, etc.—in order to gain access to politics.

There is some disagreement among historical institutionalists regarding the extent to which ideas can cause change and affect policy outcomes in their own right. Institutionalists such as Skocpol and Weir (1985) argue that in order for policy ideas to be proposed and accepted, they must be congruent with existing state structures and policies; in this way, state structures and policy legacies act as filters for policy-relevant ideas, selecting only those that “fit” with existing institutional conditions. Similarly, Campbell (1998) emphasizes the importance of fit when he argues that, “the probability that a programmatic idea will affect policy making varies in part according to the extent to which it... fits existing paradigms, conforms to the prevailing public sentiment, and is framed in socially appropriate ways” (399). However, theories that emphasize fit between ideas and existing structures do not explain the role of ideas in stimulating policy *change*. Some scholars argue that experts and their ideas are also instrumental in *transforming* and creating new institutions; however, this requires some amount of disjuncture between new ideas and existing institutions (Blyth 2002). For example, Mark Blyth argues that transformative ideas are most likely to gain currency during times of crisis, when they help to define and explain the situation, reduce uncertainty about how to act and create blueprints for the development of new institutions designed to address such crises.

Experts, Interests and New Liberal Ideology

In the literature on the role of ideas in policy-making, ideas and interests are often treated separately, as though the way to prove that ideas matter in politics is to show that political action can sometimes be idea-driven rather than interest-driven (see, for example, Campbell 1998). However, separating ideas and interests is a mistake. Ideas and interests are mutually constitutive in that ideas and ideologies allow actors to construct their interests and express them in socially meaningful ways, while interests influence which ideas and ideologies actors are likely to adopt or pursue (Blyth 2002). The constructive relationship between ideas and interests is particularly evident in the case of policy experts. Experts occupy a unique niche in the political landscape precisely because their interests lie not in improving their own material situations, *per se*, but rather in marketing their ideas. Thus, to say that policy experts' political action is idea-driven rather than interest-driven is a fallacy; rather, it is both at the same time.

Just as some theorists characterize experts' political action as purely idea-driven, others, primarily neo-Marxists, have argued that experts and intellectuals typically become involved in policy-making only to promote and legitimate the interests of the capitalist class (Barrow 1993). While some experts may act as mere instruments of business interests, this is not true for most of them.¹ More commonly, mainstream policy experts act according to ideologies that they see as resolving tensions *between* classes and supporting the long-term stability of society as a whole (Katznelson 1996). The new liberal ideology adopted by many Progressive Era social reformers and policy intellectuals enabled them to conceptualize their work in these terms. Unlike classic liberalism, in which the state was seen as having very minimal obligations to citizens in terms of

¹ Indeed, it is surprising that neo-Marxists should take this view, since Marx himself believed that the proletarian revolution would be led by elite ideologues such as himself.

market regulation and social insurance, new liberalism endorsed market interventions and welfare programs that aimed at creating a basis for individuals to achieve financial independence and compete successfully in the market (Orloff 1993). New liberalism therefore succeeded where classic liberalism did not, in that it allowed room for practical responses by the state to the widespread poverty and unemployment brought on by capitalist industrialization. In a sense, then, new liberalism can be seen as an ideological compromise between the economic interests of capital and labor.

As Campbell (2002) has pointed out, much of the literature exploring the role of ideas in policy-making leaves largely unexplained the specific processes and mechanisms by which ideologies and policy ideas motivate political action and shape policy outcomes. Typically, in this literature, there are ideas, and there are policy outcomes, but the processes connecting the two are not explicated in great detail (see, for example, Somers & Block 2005). In this paper, I address this gap by providing an in-depth micro-level empirical account of the birth and transformation of a particular policy idea, the Uniform Small Loan Law. Because policy ideas are born in the minds of real people and are transformed as they interact with other people and with institutions, political actors are at the center of my analysis. The archival data I use provide an excellent opportunity to “get inside the heads” of the social scientists who developed small loan legislation, and offer insights into how and why their thinking changed over time as they gained experience and were confronted with new knowledge, competing political interests, and institutional constraints. In addition, in exploring the tension between RSF staff’s desire to maintain the integrity of their ideas while simultaneously appeasing their political allies and maintaining their political effectiveness, it will provide a better understanding of the relationship between ideas and interests in the public policy arena.

Findings

I. *Underlying Ideologies: New Liberalism and Scientific Rationality*

Arthur Ham and his successors were guided by two main ideological commitments. The first was a *wertrational* (value rational) belief in the values and goals of new liberalism. The second was a *zweckrational* (formal rational) faith in the ability of social science to explain and develop the best solutions for social problems. RSF staff were clearly committed to the new liberal goal of developing social welfare programs and policies to protect workers and their families in cases of personal crisis or market failure. They believed that workers sought loans not because of personal failings such as lack of thrift or laziness, but because of structural economic conditions and personal emergencies that were beyond their control. Therefore, they argued that it was the responsibility of the state to protect workers' access to fair credit so that they could get through times of economic hardship without facing financial ruin. In 1911, Ham wrote an essay in support of the USLL, which included the following statement:

“The average annual wage of the American workingman is not more than \$500. This falls far short if the minimum expenditure upon which it is estimated that a normal standard of living can be maintained. Enforced idleness, unexpected illness and similar emergencies necessitate the borrowing of money... The small loan evil has reached far greater proportions in the United States than in foreign countries, not because of the prevalent American unthrift about which we hear so much, nor because the American workingman is worse off in the matter of wages than the workingman in other countries, but because our country has been backward in enacting social legislation and in recognizing the duty of the community toward its marginal laborer...”

New liberalism can be construed as an ideological compromise between labor and capital, in which market forces are tempered by state regulations that protect the interests of both groups. In a speech he gave before the American Industrial Lenders' Association in 1921, Ham said that he believed the USLL to be an arbiter between two “forces”, labor and business:

We [RSF] found ourselves standing between two groups or forces; one representing the belief that all loans... should be limited in interest to the ordinary banking rate [of 6 percent annually]; the other representing the belief that competition untrammelled by law or regulation could be trusted to establish interest rates... the first group consisted of a large part of the public... The other school...consisted largely of high-rate money-lenders... The drafted bill reflected desire to do justice to both borrower and lender (74).

This basic new liberal rationale prevailed at RSF throughout the time that it was involved in small loan reform. An essay written by an RSF representative in 1941 echoes several of the arguments Ham had made thirty years earlier:

“Laws to protect the borrower of small sums of money... [are] part and parcel of the general idea that one individual standing alone has inadequate bargaining power... The need for wage earners and others of small means to borrow money is largely the result of the Industrial Revolution... As an agricultural society gave way to an industrial society, the average person had no assets whatever except his job. When that ceased, as it often did, he had no means. It was necessary for him to get credit until he could find another job.

Evidently, the basic new liberal philosophy behind the USLL remained a constant: income shortages were caused by structural conditions and not personal failings; therefore, it was the responsibility of the state to enact social legislation regulating the small loans industry so as to ensure laborers’ access to credit under fair rates of interest.

In addition to the *werrational* offered by new liberalism, RSF staff adopted the *zweckrational* principle of objective, scientific analysis being the best means of understanding the small loan problem and developing effective solutions for it. RSF’s emphasis on scientific objectivity was as much a political strategy as it was a statement of values, since RSF’s authority depended on its ability to convince lawmakers that its recommendations were based on science rather than on financial interests. Given the high interest rate the Foundation was supporting and the reputation of its namesake, who was known for his ruthless financial practices—“one of the most unscrupulous, disreputable loan sharks that ever lived,” as Representative LaGuardia of

New York once put it—RSF’s political viability depended on convincing suspicious policy-makers and the press that it was not covertly representing the interests of the small loan industry. Accusations that RSF was in league with the money-lenders were widespread, and came primarily from two sources: loan sharks and their allies who felt threatened by the USLL and sought to undermine RSF’s credibility, and politicians and members of the public who could not understand the benefits of charging a high interest rate for small loans. Falling into the second category (presumably) was Representative LaGuardia, who called the USLL “outrageous, inhuman and unconscionable” on the House floor in 1930, and later wrote:

The guilty consciences of those engaged in a miserable and low line of business [money-lending] prompt the demand for clothing themselves... with an air of respectability... For that purpose the Russell Sage Foundation is generally called into action. This Foundation is always ready and willing to make a “research”... to recommend legislation legalizing *forty-two per cent interest on small loans*... All in the name of philanthropy!” (*Brass Tacks*, October 1932).

To counteract these suspicions, RSF stressed over and over again that because it was not itself in the business of making small loans, it had no financial interest in the Uniform Small Loan Law, and that its recommendations were therefore based on rigorous non-partisan investigation rather than on material self-interest. For instance, in a testimony on the USLL he gave before a state legislative body in 1919, Ham’s successor Walter Hilborn stressed that RSF “is not in any way financially interested in the field which we have been discussing. The sole interest of the Russell Sage Foundation in the matter is the welfare of the public.” In some instances, the need to prove its scientific objectivity led RSF staff to make exaggerated claims. In a 1919 letter to Governor Sproul of Pennsylvania, for example, Hilborn wrote that the 3.5 percent interest rate authorized by the USLL “is the scientific rate and is recommended by all persons who have made a special study of the small loan situation.” While the USLL rate was certainly based in experience in the small loans field, it was not, at that point, backed up by

rigorous scientific analysis. Moreover, as will be discussed further below, disagreement and uncertainty did persist in the small loans policy community as to whether the flat 3.5 percent rate was, in fact, the best way to go.

II. *Establishing an Expert Identity*

In spite of the suspicion RSF had to contend with throughout its campaign on behalf of the USLL, the Foundation was for the most part quite successful in establishing for itself a reputation as the foremost expert authority on the small loans issue in the United States. Initially, the Foundation's profile and reputation was probably attributable to the status and social connections of its founder, Mrs. Sage, and the Foundation's president, Robert De Forest. At the time of his death in 1931, De Forest was one of the richest 100 men in the United States. He was very well connected; in addition to serving as the Foundation's president, he was president of the Metropolitan Museum of Art from 1913-1931, and, along with luminaries such as Theodore Roosevelt and Andrew Carnegie, served as one of the honorary vice presidents of the New York Legal Aid Society. Though connections may have opened up some doors for Arthur Ham early on (he was, for example, able to hold a number of personal audiences with the governor of New York and get his friend and colleague, Walter Hilborn, appointed Deputy Assistant Attorney General of New York in 1913), his success ultimately depended on convincing lawmakers that he knew what he was talking about. In 1916, for instance, a Massachusetts state senator told Ham that the small loans issue "is an extremely technical one and very confusing to the committee. There is one thing, however, that all the members of the committee are convinced of and that is that you have completely mastered the subject and have in your head all of the phases of it" (851).

As the Foundation became involved in states' efforts to develop remedial loan legislation, its reputation grew, and by the late teens the Department of Remedial Loans was receiving frequent letters and telegrams from legislators and welfare activists from around the country seeking information, legislative advice and strategic assistance. In newspaper articles on the small loan subject, RSF was frequently cited as having studied the matter rigorously for years and as being the preeminent expert in the field. Ham and his successors, Leon Henderson and Rolf Nugent, frequently spoke before charity conferences and meetings of local Better Business Bureaus and the American Industrial Lenders Association. In many states, RSF staff's direct involvement in lobbying for the Uniform Small Loan Law and giving testimony before legislative committees was essential in convincing legislators that the law was sound. In some cases, RSF's non-involvement spelled death for fledgling small loan bills. For example, in 1920, the USLL failed in Kentucky in part because Walter Hilborn was not able to take part in a key legislative hearing. In early February, Hilborn visited Louisville and Frankfort and, working together with representatives from the American Industrial Lenders' Association and the Kentucky Conference of Social Work, secured support for the USLL from various welfare organizations, churches, women's groups, newspapers, several labor unions, and the governor himself. Hilborn left Kentucky confident that the bill would pass (630); however, less than a week after Hilborn's departure, a rumor spread at the capitol that RSF was *not* supporting the small loan bill. This, along with the Kentucky State Federation of Labor's opposition, threatened the USLL's passage so severely that representatives of the American Association begged Hilborn to return to Kentucky to give testimony and save the bill (638). In spite of their urgent pleas and admonitions that "the balance of the fight is in your hands," Hilborn could not return because his wife had fallen ill, and the USLL was defeated.

III. Institutional Environment and Political Alliances

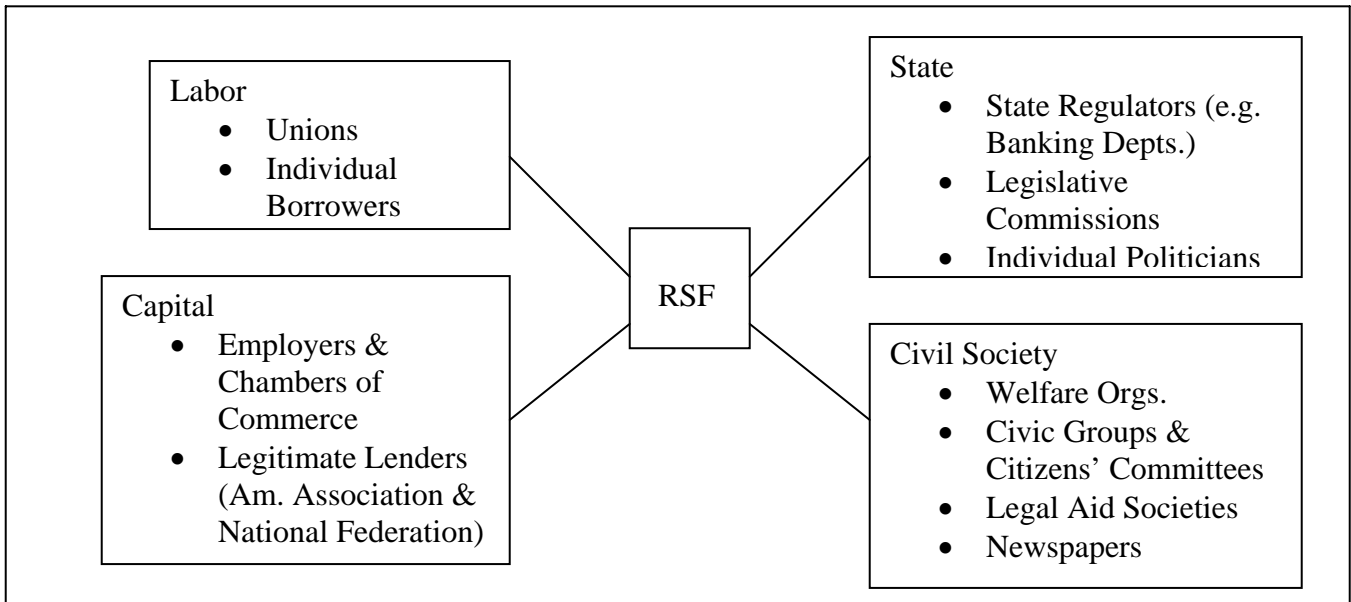
RSF's prestigious reputation and expertise in the subject of small loans were not enough to ensure its political success. In the interest group-dominated political environment of the early twentieth century, RSF needed political allies. Working alone, RSF met with considerable opposition from lobbyists working on behalf of the loan industry who were often successful in either defeating regulatory legislation or in amending it to diminish its effectiveness. In 1912, Ham wrote that in spite of a large number of small loans bills that had been introduced in many states, most failed to pass because of resistance by the money-lenders (Robinson & Nugent 1935). While RSF did have the National Federation of Remedial Loan Societies on its side, it needed to secure cooperation from commercial lenders in order to be politically effective. There was, in fact, a sizeable group of for-profit lenders that supported some sort of regulation because they wanted the industry to be legalized; the key point of contention that put these commercial lenders at odds with the Foundation and the National Federation was the maximum interest rate. Prior to 1916, RSF and the Federation were actively supporting legislation that put the interest rate between 2 and 3 percent a month; the commercial lenders knew from experience that this was too low. If RSF wanted to get the commercial lenders on its side, a compromise would have to be reached.

In 1915, Frank R. Hubachek, a lawyer representing the Mackey chain of small loan companies, drafted a Pennsylvania bill that placed the interest rate at 3 percent but allowed for additional fees. In other respects, however, Hubachek's proposed legislation was quite compatible with the legislation Ham had drafted at RSF. In spite of its allowing of fees, RSF endorsed Hubachek's bill, and it was passed in June 1915 (Robinson & Nugent 1935). In April

1916, representatives of several of the largest chains of commercial small loan companies met in Philadelphia and formed the American Association of Small Loan Brokers, later renamed the American Industrial Lenders' Association. In October 1916, Ham, representing the National Federation, met with the American Association to begin hammering out a legislative plan of action to which both could subscribe. In November, they met again to jointly craft a model small loan bill that became officially known as the Uniform Small Loan Law. The compromise that resulted allowed a 3.5 percent per month interest rate and no fees. From 1916 on, the American Association, the National Federation and the Russell Sage Foundation were firm allies working on behalf of the USLL in many states. As we have seen, however, the close alliance between the American Association and RSF proved to be a double-edged sword, since RSF's collaboration with the money-lenders sometimes caused lawmakers such as LaGuardia to question the credibility of the Foundation's motives.

In addition to the allies it had in the American Association and the National Federation, RSF courted the support and active cooperation of labor unions, employers' associations, welfare organizations and citizens' groups, state regulating bodies, newspapers and individual politicians. Figure 1 illustrates the key actors and institutions with which RSF crafted alliances as it worked on behalf of the USLL:

Figure 1: RSF’s Institutional and Political Environment



In many states, these groups were vital in leading the on-the-ground fight on behalf of the small loan law. In Michigan, for example, a community welfare organization called the Detroit Community Union, together with the Detroit chapter of the American Red Cross and a non-profit research organization called the Detroit Bureau of Governmental Research, led a successful campaign on behalf of the USLL in 1921 (977). In 1927, a group of citizens organized the Minnesota State Committee to Promote Small Loan Legislation, with Leon Henderson serving at its secretary, spearheaded a USLL campaign in that state (1059, 1064), and in 1933 the St. Louis and Kansas City Better Business Bureaus were actively involved in lobbying the Missouri legislature to reinstate certain sections of the USLL pertaining the assignment of wages (1177). In addition, legal aid societies and Better Business Bureaus in various cities, including Atlanta, Cincinnati and Chicago, were instrumental in efforts to root out and prosecute loan sharks and represent their victims (465, 727, 510). Organized labor was less active, but the National Federation of Labor did formally endorse the USLL in 1928 (335). Finally, “activist” banking commissioners worked to investigate small loan conditions and promote small loan legislation in

several states. For instance, in 1934, the Indiana Department of Financial Institutions conducted an investigation that led to the adoption of a graduated interest rate, a change that was in keeping with the sixth draft of the USLL (533, 1417).

The interests of individual politicians whom RSF tried to sway did not always coincide with the Foundation's own goals. The fact that the 3.5 percent rate was so high and so vigorously protested in some states presented politicians with embarrassing choices, even if they agreed with it in principle. In order to maintain its political toehold in the face of political opposition and skepticism, RSF seems to have been willing to make ad-hoc compromises on its views in order to support progress in the right direction. For example, a 1911 letter from Ham to William Osborn, a lawyer who worked for the governor of New York, states that RSF was supporting a New York bill that would raise the maximum annual interest charge from six to eighteen percent, far below the rate that RSF was officially advocating at the time. Ham made it clear that RSF believed the interest rate should be higher and that the bill did not provide for adequate supervision of small loan companies, but that the Foundation was supporting the bill anyway because it represented some degree of progress. Similarly, in a 1915 letter to Governor Brumbaugh of Pennsylvania, Ham endorsed the Hubachek bill that put the monthly interest rate at three percent and allowed the charging of fees, because he considered it "a step in the right direction for Pennsylvania." A private letter to W.N. Finley, the chairman of the National Federation of Remedial Loan Associations, indicates that Ham was also supporting the bill because of pressure from C.H. Watts, the chairman of the for-profit lenders' association. As Ham wrote, "It is a bad situation. Watts knows how important it is to the Remedial Loan Company of Philadelphia to get a bill passed. He is undoubtedly in a position to block any bills that we might introduce at this late day. He... can therefore demand from us terms which he knows we would

ordinarily not consider for a moment.” Thus, RSF at times was willing to support legislation that did not fulfill all of its recommendations when such tactics appeared necessary for political purposes.

While RSF staff typically did not have much direct face-to-face contact with legislators, this was not the case in New York, where Arthur Ham met frequently with the state’s governor and the sponsors of his bills. Over the course of several months in 1914, for instance, Ham met numerous times with New York Governor Martin Glynn to convince him to support certain aspects of the small loan bill he was in the process of drafting. Initially, Governor Glynn opposed placing small loan lenders under the jurisdiction of the state banking department, which he considered to be incompetent; instead, he thought that a separate office should be established with a Commissioner of Small Loans appointed by and directly answerable to him. Ham, on the other hand, thought that it would be more efficient and practical to avoid setting up a separate regulatory agency for small loans, and that the small loans officer should be appointed and supervised by the New York Superintendent of Banking. After several conferences with the Governor, Ham was able to convince him of his point of view (1707, 1718, 1721). Stating explicitly that he trusted Ham because he represented a philanthropic organization that had studied the small loan issue extensively, the Governor eventually endorsed (and later signed into law) a bill drafted by RSF that included a provision that placed the supervision of small loan companies under the jurisdiction of the Banking Department (1725).

In many states, it took years of lobbying to convince legislators to adopt the USLL. Table 1 shows the year RSF first began to lobby for the USLL (or one of the preliminary bills drafted before 1916) and the year it passed in each state. The duration of time between RSF’s initial forays into a state and the year of the law’s passage provides clues as to how long it took RSF to

convince each state’s legislature to change its thinking and reject the old usury laws in the case of small loans.

Table 1: Years in Which RSF First Began Lobbying for USLL and Year of Passage

State	Year RSF began lobbying for USLL or Prelim. Draft		State	Year RSF began lobbying for USLL or Prelim. Draft	
	Draft	Passed		Draft	Passed
Alabama	1927	---	Montana	---	---
Arizona	---	1919	Nebraska	---	1943
Arkansas	---	---	Nevada	---	1943
California	1917	1939	New Hampshire	1917	1917
Colorado	1919	1943	New Jersey	1913	1914
Connecticut	1919	1919	New Mexico	---	---
Delaware	1929	---	New York	1911	1914
District of Columbia	1913	---	North Carolina	*	---
Florida	---	1925	North Dakota	*	---
Georgia	1919	1920	Ohio	*	1915
Idaho	---	1943	Oklahoma	*	---
Illinois	1916	1917	Oregon	*	1915
Indiana	1917	1917	Pennsylvania	1915	1915
Iowa	1920	1921	Rhode Island	*	1923
Kansas	1927	---	South Carolina	*	---
Kentucky	1914	1934	South Dakota	*	---
Louisiana	1922	1928	Tennessee	*	1925
Maine	1913	1917	Texas	*	---
Maryland	1912	1912	Utah	*	1917
Massachusetts	1911	1911	Vermont	*	1937
Michigan	1915	1921	Virginia	*	1922
Minnesota	1919	1939	Washington	*	1941
Mississippi	---	---	West Virginia	*	1925
Missouri	1912	1913	Wisconsin	*	1927
			Wyoming	*	---

Source: Russell Sage Foundation Archives, Library of Congress

* Missing Data (to be filled in this summer)

IV. *Specific Policy Ideas*

While the initial impetus to “do something about the loan sharks” seems to have come from a directive from Margaret Olivia Sage and her advisors, the small loan issue quickly became an institutionalized part of RSF’s mission with the hiring of Arthur Ham and the creation

of the Department of Remedial Loans. Specific ideas about the specific instruments and basic techniques used to accomplish this goal underwent a number of first- and second-order changes over the three decades during which RSF was actively involved in the small loans issue. The first RSF-sponsored work in the small loans field occurred in 1907, when the Foundation offered two research fellowships to Arthur Ham and his fellow Columbia student, Clarence Wassam, to conduct a project on a subject of their choosing. Both chose to study the small loan industry (74). After finding that the loan shark problem was pervasive and that it was the cause of much poverty and distress among the low income population, Ham and Wassam both concluded that: (1) the demand for small loans was high; (2) usury laws, which restricted interest rates six percent annually, made it impossible for legitimate small loan lenders to operate at a profit; (3) the industry was therefore dominated by illegal lenders who charged extortionist rates; (4) the solutions to the problem involved creating remedial loan societies, promoting publicity and crafting new legislation (Robinson and Nugent 1935).

In light of these findings, RSF's earliest efforts against loan sharking focused on promoting remedial loan societies, which were semi-charitable loan agencies that placed restrictions on their annual dividends, charged low rates (around 2 percent a month) and eliminated additional fees for small loans. RSF began promoting the development of remedial loan societies because it believed that they would "provide such competition as would result in an improvement of the methods commonly employed by money-lenders and to afford an object lesson that would attract reputable capital into the business" (Ham 1921, 74). When the National Federation of Remedial Loan Associations was founded in 1909, Ham became its unofficial executive secretary. In 1911, RSF invested \$100,000 in the Chattel Loan Society, a remedial loan agency in New York City that was founded in 1894. By 1912, the National Federation had a

membership of twenty-five remedial loan agencies operating in several major cities across the country. However, time and experience proved that there were never enough remedial loan agencies to actually provide real competition for loan sharks. As sharks continued to dominate the industry and exact extremely high rates, Ham concluded that the problem could only be solved if the industry could be opened up to legitimate commercial lenders. This could only happen if usury laws were changed to allow small loan lenders to charge a higher rate of interest.

At the time RSF began advocating for small loan reform, most states were operating under usury laws that restricted yearly interest rates for all lenders, banks and small loan companies alike, to six percent a year. New York, however, was an important exception. The New York Chattel Mortgage Loan Law of 1895 was intended primarily as an enabling act for remedial loan societies, such as the Provident Loan Society, which was organized in 1894 and was the first of these societies to be formed in New York. The Chattel Mortgage Law allowed these semi-charitable lenders to charge an interest rate of 3 percent monthly for two months and two percent a month thereafter on loans of \$200 or less (Robinson & Nugent 1935). This law was drafted and advocated by a committee of the Charity Organization Society of Buffalo, chaired by Ansley Wilcox, a prominent Buffalo attorney who, some fifteen years later, became one of Ham's closest allies in promoting further small loan reforms in New York (1447). In 1910 and 1911, the legislative thinking regarding the proper rate for small loans began to change in other states, as well. That winter, bills designed to regulate the small loan industry were introduced in twenty-two states, and as Ham wrote in his quarterly report in spring 1911, the majority of those bills prohibited the charging of fees and prescribed an interest rate of 2 percent a month, "which experience has proved is equitable to both borrower and lender" (61, 62). Furthermore, in that year, Massachusetts established a state supervisor of loan agencies who was

appointed by the governor and would have the responsibility to set the maximum interest rate (up to 3 percent a month), to issue licenses to lenders, and to audit lenders to ensure their compliance with the law (822).

It was on the wings of this nation-wide push that Ham first proposed to his boss, John Glenn, to develop a “model bill that will meet the requirements of all states” and that would be “actively supported by the Uniform Laws Commission” (62, 61). In March 1911, following several months of close communication and collaboration with Ansley Wilcox, the author of the 1985 New York act, Ham outlined some of the key aspects he wanted to include in the model small loan law:

My own idea is that pawnbroking, chattel mortgage loans² and loans secured by assignments of wages³ ought to be placed under the supervision of a bureau of the state banking department and a maximum rate of interest of 3 percent per month allowed, inclusive of fees and charges of all kinds. The law should include a compulsory license feature with a heavy penalty for doing business without a license, or for violation of other parts of the act (1480).

Thus, while the specific ideas pertaining to regulation and the maximum interest rate contained in the preliminary drafts of the USLL found precedent in legislation that had already been drafted in New York, Massachusetts and other states, Ham’s proposal represented a novel step in that it made uniform legislation that would meet the needs of every state its primary goal. In addition, Ham was adamant about eliminating all service fees associated with small loans, since he believed these fees made the terms of the loan confusing to borrowers and opened up the possibility for loan companies to add hidden charges.

² Loans secured through items of personal property such as jewelry or furniture.

³ Loans secured through future wages. In the event of default, payments were often deducted directly from borrowers’ paychecks.

While Ham thought that amendments to existing usury laws could perhaps “improve the situation,” he clearly favored the development of new legislation over the amendment of existing law (1446). Ham hoped that a new law specifically designed to regulate all aspects of the small loan business—including pawnbroking, chattel loans and wage assignments—would serve as a model law which could be easily imported to other states. This law would go further than existing usury laws in that it would do more than simply set interest rates; in addition, it would include the establishment of a regulatory body that would issue licenses, collect data from licensees and punish violators. While Ham and his allies could have opted to simply amend existing usury laws to include these provisions for loans of \$300 or less, entirely new legislation was more appealing because amendments could not have been “uniform” given variations in existing state laws. Furthermore, the model law gave RSF a concise, neatly packaged, branded product to rally behind, whereas different amendments customized in accordance with each state’s existing laws would have been less identifiable as RSF’s specific contribution to the small loan field.

By 1913 the specific policy proposal that RSF ended up advocating most forcefully was a small loan bill, which eventually became known as the Uniform Small Loan Law in 1916 (1292). Over the approximately thirty years that RSF spent actively promoting the USLL, the aspect of the law that was most vehemently opposed by legislators and other political actors (including some labor unions and welfare organizations) was the interest rate. The policy legacy of the old usury laws prohibiting interest rates above 6 percent was strong, and many legislators did not or would not understand why RSF thought the rate for small loans needed to be so high. The onus was on RSF and its allies, the National Federation of Remedial Loan Societies and the American

Industrial Lenders' Association, to convince these skeptics that the rate contained in the USLL was empirically justified. However, even though RSF staff often referred to the rate figure as “scientific” and based on “rigorous study,” a closer look reveals that it was based more in practical experience and political compromises than on any type of scientific analysis. Indeed, opinions about what the rate should be was a matter of contention and confusion, even within RSF. Before the first draft was created in 1911, Arthur Ham actually looked favorably on legislation that put the rate at 2 percent; when it came time to draft the 1914 New Jersey legislation, however, consultation with members of the National Federation of Remedial Loan Societies prompted him to endorse a 3 percent rate (1292). The recommended rate climbed even higher, to 3.5 percent, in 1916 when the first official draft of the USLL was crafted in consultation with members of the American Association. After three days of debate between RSF and the American Association, the lenders convinced Ham that a rate less than 3.5 percent would be too low to sustain profitability in medium-sized and smaller cities (74). Thus, RSF's early recommendations with regard to the interest rate were based less on scientific analysis than on political compromises based on the practical knowledge and financial interests of small loan lenders.

In 1928, a crisis occurred in New Jersey that underscored the USLL's vulnerability due to the lack of scientific evidence supporting the 3.5 percent interest rate. New Jersey had long been hailed by the Foundation as its flagship state: in 1914, it was the first state to pass the USLL, and it was widely considered to have one of the best-regulated small loans industries in the country. Then, in the New Jersey legislature set up a joint legislative commission, headed by New Jersey State Senator Francis Davis, to investigate the small loan situation and the interest rate in that state. In March 1929, the Davis Commission issued a report, which, based on an audit of 37 loan

companies, recommended that the maximum monthly interest rate on small loans be cut in half (1420). To justify the recommended cut, the report emphasized testimony from the Newark Provident Loan Society, a member of the National Federation of Remedial Loan Societies, which claimed to be operating at a monthly interest rate of one and a half percent (1421).

RSF and its allies from the American Industrial Lenders' Association vigorously opposed this move, arguing that the report was based on faulty accounting and bad information. Leon Henderson, director of the RSF Department of Remedial Loans at the time, protested at legislative hearings, in letters to lawmakers and in the press that it was bad policy to base the maximum legal rate on the experiences of a semi-philanthropic organization that was able to operate at costs considerably lower than the average commercial loan company (1421, 1324, 1342). Henderson also attempted to convince lawmakers that they should allow the three percent rate to stand by presenting them with anecdotal information. For example, he solicited letters from all the members of the National Federation of Remedial Loan Societies, asking their opinion as to whether a one and a half percent rate was adequate; thirteen members wrote back immediately to say that it was not (1346-1359). Further, Henderson argued that he had "examined every figure that has ever been published relating to profits of these small loan companies in every state" and that "not even the most efficient company in the country could operate at the 1 1/2 percent rate" (1388). Although Henderson was personally familiar with the statistics pertaining to profit margins of small loan companies, RSF had no published report or study to back up its claim that the interest rate had to be at least three or 3.5 percent. While Henderson made a strong case against the rate cut, he was ultimately unsuccessful and the cut went into effect in April 1929.

Henderson spent the next several years lobbying the New Jersey state legislature to repeal the interest rate reduction; again, however, his arguments were based on anecdotal facts and personal knowledge rather than on any formal RSF-sponsored interest rate study. For instance, in a January 1930 letter to a New Jersey newspaper editor, Henderson cited the experience of West Virginia, which cut its rate from 3.5 to 2 percent in June 1929. Through personal conversations with West Virginia state legislators and regulators, Henderson said he found that only six months after the rate cut, “legitimate small loan companies have practically gone out of existence” and “high rate lenders have replaced them with their 20 percent per month rates” (1327, 1333). Meanwhile, at the behest of various members of the American Industrial Lenders’ Association, two private accounting firms and a researcher at the American Statistical Association issued their own studies of the financial statements of New Jersey small loans companies. As these three reports were unanimous in condemning the rate reduction (1323), RSF supported them publicly. Privately, however, RSF staff was uneasy, since analyses of the reports by RSF’s own statisticians revealed that they were of questionable reliability (2965). In April 1930, R. G. Hurlin of the RSF statistical department sent RSF General Director John Glenn copies of his staff’s analyses of the three reports along with a memo in which he wrote, “There is a dearth of reliable information on such important points as the profits of the business under varying rates of interest... I, personally, wish that the Foundation might undertake... further research which could produce information of unquestionable scientific value on these points. It seems to me that this would strengthen the Foundation’s position before the public in promoting small loan legislation, since it would give a firmer basis for legislation than is now available” (1390). Apparently, Leon Henderson had already made a similar argument to his boss, since Glenn forwarded Hurlin’s memo to him along with a hand-scrawled note that read, “I don’t know

whether the attached suggestions by R.G.H. were inspired by L.H. or are the result of psychic sympathy. They seem to be in line with some of your thoughts. We can consider them... when we come to discussing future plans” (1391).

The New Jersey interest cut crisis was a watershed moment for RSF, when the need to produce real scientific analysis to retroactively justify the provisions of the USLL became suddenly clear. The situation was politically tricky, however, since RSF would be put in a rather embarrassing position if its own studies proved that the 3.5 percent rate was too high. Perhaps not surprisingly, then, interest rate studies conducted in the early 1930s seemed to confirm the validity of the USLL’s recommended rate. For instance, in 1933, Henderson wrote:

We have made an extensive study of all the statistical data relating to costs, earnings and average size of loans made by licensed lenders. This survey indicates that loans under \$300 are made best in those states having the 3 and 3 1/2 per cent maximum rates; that attempts to serve the borrower by lowering the rate of interest have uniformly resulted in withdrawal of loan companies from the field (809).

A significant shift in thinking about maximum interest rates occurred when Rolf Nugent, Henderson’s former assistant, became director of the RSF Remedial Loans Department in 1934. Whereas prior directors, including Ham, Hilborn and Henderson, were strongly wedded to the 3.5 percent rate, Nugent was willing to consider other options. A study Nugent conducted in 1935 for the Iowa Department of Banking, for example, concluded that the best maximum rate for that state would be a graduated rate that charged 3.5 percent on the first \$100 and 2 percent on everything beyond that (554, 555). This conclusion represented a significant change in thinking at RSF, where fifteen years earlier Walter Hilborn had decried graduated rates as being “unscientific and pernicious” (900). In addition to RSF’s investigations, state banking departments also began conducting their own interest rate studies, leading to shifts toward a graduated interest rate in other states. For instance, based on an investigation and analysis of

small loan companies' annual reports, the Indiana Department of Financial Institutions in 1934 issued an order that the interest rate be changed from a flat 3.5 percent rate to a graduated rate with two break points (533). In July 1934, Nugent visited Indiana to gather data for a cost accounting formula he was working on, and reported being very impressed with the Department's analysis and conclusions (1417).

Once studies such as the ones in Iowa and Indiana were carried out, RSF seems to have come to recognize that its one-size-fits-all 3.5 percent interest rate was not the optimal solution, given the varying costs associated with loans of different sizes and the particular economic conditions in different states. Accordingly, in 1934 the fifth draft of the USLL put the determination of the maximum rate of interest for each state in the hands of a state fact-finding commission (555). The sixth draft of the USLL, drafted in 1935, for the first time authorized a graduated interest rate depending on the size of the loan. In a letter to the small loan examiner of Massachusetts in 1937, Nugent explained the rationale behind the shift toward state-specific and graduated rates as follows:

Although we recommended a flat 3 1/2 per cent rate as a maximum for many years, we are convinced that a rate as high as this is neither necessary nor desirable. Our current maximum recommendation is 3 1/2 per cent on the first \$100 and 2 1/2 per cent thereafter, but this is for an initial rate only and we concede that many states, perhaps all of them, could do with a lower rate than the initial maximum after a period of experience... we are hesitant to propose specific rates... because the opinion of the local supervisory authorities should be more valid than ours (811).

This statement, which basically undercuts the all-knowing expert image that the Sage Foundation had cultivated for three decades, represents a significant shift in RSF's identity and ideology. It suggests that new and better information about the variability of costs of making small loans of different sizes and in different states, coupled with a change in leadership, caused RSF to place greater credence in state-level small loan regulators and their "local knowledge" (what James

Scott has termed, *metis*, after the classical Greek word denoting knowledge that can only be gained through practical experience). By 1939, RSF had largely pulled out of actively advocating for small loans legislation altogether, since “we believe that the experience with regulatory small loan laws is now so elaborate and so well documented that it is within the power of any state to determine for itself what type of regulation it wants” (Nugent 1939, 282).

Although RSF did eventually begin to evaluate the impact of different interest rates in order to “scientifically” determine what the maximum rate should be, it never extended such systematic evaluation to the USLL as a whole. Instead, it relied on anecdotal evidence to “prove” that the law was working—for instance, by citing trends in the number of loan shark offices that existed in major cities before and after the law’s enactment in various states. The question of whether borrowers were, in fact, being better served as a result of the law was never subjected to rigorous investigation. The fact that RSF only began thoroughly examining the interest rate question *after* the New Jersey rate cut offers some possible clues as to why the Foundation never evaluated the effects of the USLL. The New Jersey rate cut was not (at least in theory) ideologically or politically motivated; rather, it was based on apparently neutral, scientific evidence produced by a state-sponsored audit and endorsed by a reputable practitioner, the Newark Provident Loan Society. Clearly, this type of evidence-based challenge required RSF to respond accordingly, by producing data that were even more thorough and reliable than those cited by its opponents. In this situation, counter-arguments based on anecdotal evidence or passionate rhetoric proved unconvincing. In contrast, the USLL as a whole never experienced any opposition from groups basing their claims on scientific investigation and analysis. The law’s opponents typically based their opposition on emotional and indignant rhetoric that could easily be dismissed as evidence of either ignorance or of collusion with the high-rate lenders.

Therefore, a rigorous evaluation of the USLL's effects on borrowers and the small loan industry never became politically necessary.

Conclusions

Power resources and Marxist theories both fail to adequately explain the role of experts and their ideas in policy-making. Because power resources theory sees welfare policies as resulting primarily from class-based political struggles, it fails to account for the influence of political mobilizations based on forms of identity other than class. For this reason, the important influence of social science experts on the crafting of social policy throughout the twentieth century is basically ignored by power resources theorists. Similarly, neo-Marxists have misconstrued the role of policy experts by arguing that experts' analyses and recommendations serve mainly to legitimate the interests of the ruling class. This analysis reveals that the consumer credit reforms advocated by the Russell Sage Foundation were in fact a compromise, grounded in new liberal ideology, between the immediate interests of borrowers and lenders that benefited both groups in the long run.

Whereas historical institutionalist literature has begun to explore the role of expert ideas in public policy development, existing studies have failed to examine in detail the specific processes through which policy ideas arise, evolve, and are adopted into law. The foregoing analysis has begun to fill this gap by illuminating the process through which RSF staff developed and modified their ideas regarding the small loans issue in response to new knowledge, political pressures, and institutional constraints and opportunities. While the new liberal ideology that RSF staff embraced remained in place throughout their 30-year fight against loan sharking in America, their more specific policy ideas about how best to organize that fight underwent several

significant changes. The first of these changes—the shift from focusing on the development of remedial loan societies toward pressing for small loan legislation—can be characterized, in Peter Hall’s terms, as a second-order shift in ideas, since it altered the basic techniques of political action while leaving the overarching goals and underlying ideological paradigm unchanged. This shift away from pushing remedial loan societies came as a result of new knowledge gained through experience: in spite of the development of twenty-five such societies in several major cities across the United States by 1912, they were ineffective in producing enough competition to eliminate loan sharking. Based on this experience, RSF shifted its tactics toward advocating for the Uniform Small Loan Law.

Clearly, ideas matter in politics, but politics also matters in determining which ideas experts are likely to promote and in shaping changes in their ideas over time. RSF’s basic ideas pertaining to small loan legislation did not develop out of thin air; rather, the two central precepts contained in the USLL—higher interest rates for small loans and strict supervision of small loan companies by a state regulating body—had precedent in earlier legislation drafted in New York, Massachusetts and other states. Furthermore, because early twentieth century American political scene was characterized by the increasing institutionalization of interest group politics, RSF’s success in promoting the USLL depended on its ability to form alliances with non-profit and for-profit lenders’ groups. These alliances required compromises on the specific policy ideas embodied in the USLL, particularly with regard to the maximum interest rate that the law would allow. Wrangling over the proper maximum rate of interest can be characterized, in Peter Hall’s terms, as first-order shifts in thinking because they involved tweaking the specific instruments of policy while leaving the basic techniques in place. The shift in the interest rate from 2 to 3 to 3.5 percent came primarily as a result of negotiations with the semi-charitable National Federation of

Remedial Loan Societies and the for-profit American Association of Small Loan Brokers. These groups based their demands on their own extensive experiential knowledge of the small loans field; for instance, the for-profit lenders were convinced that a flat three percent rate would not be sufficient for them to operate at a “reasonable” profit in small and medium-sized cities. Thus, the 3.5 percent rate contained in the first draft of the Uniform Law in 1916 was adopted primarily on the basis of political compromises with lenders—not on the basis of “objective” scientific research, as RSF often claimed.

RSF’s final major second-order shift in thinking came in response to the intense political pressure caused by the 1928 interest rate crisis in New Jersey. When the cut was being debated in the New Jersey legislature, RSF found that it had no published reports and no firm scientific evidence to justify its opposition to the cut. This failure was particularly egregious because the cut’s supporters based *their* arguments on an accounting audit that had the semblance of scientific objectivity. While the initial studies RSF produced to address this deficiency conveniently provided retroactive evidence in support of the rate, later studies conducted by Rolf Nugent and various state banking departments led to two very different conclusions: first, that the costs associated with making small loans varied with the size of the loan and that a graduated rate was therefore appropriate; and second, that conditions varied so much from state to state that state regulators were better equipped than the Foundation to determine what the maximum interest rate should be. This latter conclusion, in particular, represented a significant second-order change in thinking at RSF. It effectively threw out the notion that a “uniform” law, and particularly a uniform interest rate, could address the needs of all states effectively. It also indicates a shift in thinking about what it means to be an expert: rather than assume that elite social scientists in New York had all the answers, RSF came to recognize that the locally

embedded, experiential knowledge might be better suited to determining each state's maximum interest rate.

In addition to providing micro-level detail into the development and transformation of a particular policy idea, this analysis offers insight into the relationship between ideas and interests in policy-making. Current scholarship within the historical institutionalist field has a tendency to treat ideas as distinct from interests, as though the way to prove that ideas matter in politics is to show that political action can sometimes be motivated “purely” by ideas. Policy experts occupy a unique niche in the political landscape because they are in the business of marketing ideas. Surely, RSF staff was motivated by and sincerely committed to Arthur Ham's ideas with regard to small loan reform. Nonetheless, because they were “interested” in being politically successful and in expanding the influence of the Foundation, they were not immune to political pressures and were therefore willing to make strategic compromises on their specific policy recommendations in order to appease their political allies and maintain their political viability. In engaging in such compromises, however, RSF had to be careful not to yield too much—both because this would undermine the integrity of its ideas and because it could damage RSF's professional reputation. The delicate balance RSF therefore struggled to maintain between political effectiveness and scientific integrity reveals how policy experts' interests and ideas are inextricably bound up with one another, and how policy innovations can be both interest-driven and idea-driven at the same time.

Finally, my analysis lends support to Mark Blythe's contention that policy ideas need not fit so closely with existing policy legacies and institutional structures in order to be successful. While RSF was neither the first nor the only source of ideas relating to small loan reform—initiatives to raise rates and increase supervision were already being considered in several states

by the time Arthur Ham created the first draft of the USLL—the dominant policy legacy in the area of consumer credit were the 19th century usury laws that restricted maximum interest rates to 6 percent a year. In many quarters, politicians and welfare groups held onto these usury laws with an almost religious zeal. Nonetheless, over time, RSF and its allies were able to convince enough legislators to change their thinking and to pass the USLL in 34 states. This impressive result indicates that ideas have significant power to transform, rather than merely reflect and bolster, existing social policies and institutions.

Bibliography

- Althusser, Louis. 1971. Ideology and Ideological State Apparatuses. In *Lenin and Philosophy, and Other Essays*. New York: Monthly Review Press.
- Barrow, Clyde M. 1993. *Critical Theories of the State*. The University of Wisconsin Press.
- Béland, Daniel. 2005. Ideas and Social Policy: An Institutional Perspective. *Social Policy & Administration* 39: 1-18.
- Blyth, Mark. 2002. *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*. Cambridge: Cambridge University Press.
- Calder, Lendol. 1999. *Financing the American Dream: A Cultural History of Consumer Credit*. Princeton: Princeton University Press.
- Campbell, John. Institutional Analysis and the Role of Ideas in Political Economy. *Theory and Society* 27: 377-409.
- _____. 2002. Ideas, Politics and Public Policy. *Annual Review of Sociology* 28: 21-38.
- Carruthers, Bruce and Timothy Guinnane. 2004. *Collaborative Research: Uniform Small Loan Laws and Credit for Poor Americans in the Early 20th-Century*. Proposal to the National Science Foundation.
- Clemens, Elisabeth S. 1997. *The People's Lobby: Organizational Innovation and the Rise of Interest Group Politics in the United States, 1890-1925*. Chicago: The University of Chicago Press.
- Croly, Herbert. 1911. *The Promise of American Life*. New York: MacMillan.
- Esping-Andersen, Gosta. [1989] 1998. "The Three Political Economies of the Welfare State," pp.123-53 in *Power Resources Theory and the Welfare State*, edited by Julia S. O'Connor and Gregg Olsen. Toronto: University of Toronto Press.
- _____. 1999. *Social Foundations of Post-Industrial Economies*. New York: Oxford University Press.
- Gould, Lewis L. 2001. *America in the Progressive Era: 1890-1914*. Edinburgh: Pearson Education Ltd.
- Hacker, Jacob. 2002. *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States*. Cambridge: Cambridge University Press.
- Hall, Peter. 1989. *The Political Power of Economic Ideas*. Princeton: Princeton University Press.

- _____. 1993. Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain. *Comparative Politics* 25: 275-296.
- Hicks, Alexander and Joya Misra. 1993. "Political Resources and the Growth of Welfare in Affluent Capitalist Democracies, 1960-1982." *American Journal of Sociology* 99: 668-710.
- Howard, Christopher. 1999. *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*. Princeton: Princeton University Press.
- Huber, Evelynne, Charles Ragin and John D. Stephens, "Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State," *American Journal of Sociology* 99: 711-749.
- Katznelson, Ira. 1996. "Knowledge about What? Policy Intellectuals and New Liberalism." In *States, Social Knowledge, and the Origins of Modern Social Policies*, edited by Rueschemeyer, Dietrich and Theda Skocpol, 17-47. New York: Russell Sage Foundation.
- Korpi, Walter. 1978. *The Working Class in Welfare Capitalism: Work, Unions and Politics in Sweden*. Boston: Routledge and Kegan Paul.
- Michel, Sonya and Seth Koven. 1990. "Womanly Duties: Maternalist Politics and the Origins of the Welfare State in France, Germany, Great Britain and the United States, 1880-1920." *American Historical Review* 95:1076-1108.
- O'Connor, Alice. 2002. *Poverty Knowledge: Social Science, Social Policy, and the Poor in Twentieth-Century U.S. History*. Princeton: Princeton University Press.
- O'Connor, Julia S., Ann Shola Orloff, and Sheila Shaver. 1999. *States, Markets, Families: Gender, Liberalism and Social Policy in Australia, Canada, Great Britain and the United States*. New York, Cambridge and Melbourne: Cambridge University Press.
- Orloff, Ann. 1993. *The Politics of Pensions: A Comparative Analysis of Britain, Canada and the United States, 1880-1940*. Madison: University of Wisconsin Press.
- _____. 1999. "Motherhood, Work and Welfare in the United States, Britain, Canada and Australia." In G. Steinmetz (ed.), *State/Culture: State Formation After the Cultural Turn* (pp. 1-49). Ithaca: Cornell University Press.
- Quadagno, Jill. 1990. Race, Class and Gender in the U.S. Welfare State: Nixon's Failed Family Assistance Plan. *American Sociological Review* 55: 11-28.
- Robinson, Louis N. and Rolf Nugent. 1935. *Regulation of the Small Loan Business*. New York: Russell Sage Foundation.

- Rueschemeyer, Dietrich and Ronan Van Rossem. 1996. "The Verein fuer Sozialpolitik and the Fabian Society: A Study in the Sociology of Policy-Relevant Knowledge." In *States, Social Knowledge, and the Origins of Modern Social Policies*, edited by Rueschemeyer, Dietrich and Theda Skocpol, 117-162. New York: Russell Sage Foundation.
- Scott, James. 1998. *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*. New Haven: Yale University Press.
- Schweber, Libby. 1996. "Progressive Reformers, Unemployment, and the Transformation of Social Inquiry in Britain and the United States, 1880s-1920s." In *States, Social Knowledge, and the Origins of Modern Social Policies*, edited by Rueschemeyer, Dietrich and Theda Skocpol, 163-200. New York: Russell Sage Foundation.
- Sealander, Judith. 1997. *Private Wealth and Public Life: Foundation Philanthropy and the Reshaping of American Social Policy from the Progressive Era to the New Deal*. Baltimore: Johns Hopkins University Press.
- Skocpol, Theda. 1985. "Bringing the State Back In: Strategies of Analysis in Current Research." In *Bringing the State Back In*, edited by Dietrich Rueschemeyer, Peter B. Evans, and Theda Skocpol, 3-43. New York: Cambridge University Press.
- _____. 1992. *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States*. Cambridge: Harvard University Press.
- Skocpol, Theda and Dietrich Rueschemeyer. 1996. "Introduction." In *States, Social Knowledge, and the Origins of Modern Social Policies*, edited by Rueschemeyer, Dietrich and Theda Skocpol, 3-14. New York: Russell Sage Foundation.
- Sommers, Margaret and Fred Block. 2005. From Poverty to Perversity: Ideas, Markets and Institutions over 200 Years of Welfare Debate. *American Sociological Review*: Forthcoming.
- Storrs, Landon R. 2000. *Civilizing Capitalism: The National Consumers' League, Women's Activism, and Labor Standards in the New Deal Era*. Chapel Hill: The University of North Carolina Press.
- Weir, Margaret. 1992. "Ideas and the Politics of Bounded Innovation." In *Structuring Politics: Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press.
- Weir, Margaret and Theda Skocpol. 1989. "State Structures and the Possibilities for "Keynesian" Responses to the Great Depression in Sweden, Britain and the United States." In *Bringing the State Back In*, edited by Dietrich Rueschemeyer, Peter B. Evans, and Theda Skocpol, 107-163. New York: Cambridge University Press.