Credit in Early America

The discovery of the New World provided new opportunities for the growth of capitalism and the expansion of credit. The first recorded use of open credit in early America took place with the establishment of the first permanent colony in New England. In September 1620, the Mayflower set sail from England for Virginia. Because of bad weather and navigational errors, the Pilgrims ended up off the coast of Cape Cod and eventually established the village of Plymouth in Massachusetts. While the journey itself was a tremendous achievement, so was its financing.

The Pilgrims had spent three years of arduous negotiations in England attempting to raise the funds necessary for the trip. A wealthy London merchant financed the trip and provided for "all credit advanced and to be advanced." In return, the Pilgrims contracted to work for a period of seven years. At the end of that period, payment would be made to the creditors based on the size of the individual investment.

The original credit of £1800 could not be paid at the end of seven years, so an alternative arrangement was agreed upon: £200 to be paid annually for a term of nine years. This arrangement had to be renegotiated and finally, after 25 years, the last payment was made. This was the first example of credit in early America.

As another early example of credit, the Second Continental Congress made efforts to finance the Army of the United Colonies in preparation for the American Revolution. The Congress had only three alternatives: borrow the money from sympathetic countries abroad which was an impossible task since the Colonists' credit in the world stood at zero; impose taxes which was unpopular and the very cause that had brought about the American Revolution; or issue bills of credit.

In June 1775, the Continental Congress authorized the printing of $2,000,000 in various denominations ranging from one dollar to eight dollars. Trouble for the Continental currency began almost at once; each note had to be hand-signed which was not a simple task considering 49,000 of them had to be signed. Counterfeiting of the currency was rampant as well. The principle behind the Continental currency was, in essence, a promise to pay the final bearer, at some point in the future, the face value in Spanish coins the coins in widest circulation at this time.

In 1783 the Treaty of Paris was signed bringing an official end to the war and official recognition of the United States by England. Trading resumed and American importers-wholesalers extended generous terms to their customers. Generally, sales were made on terms of 12 months, but even where six- or nine- month terms where offered, it was not uncommon for an account to remain unpaid for a much longer period—up to 24 months or more.

With the restoration of pre-Revolutionary trade customs and habits, credit references assumed importance, although in most instances, proper information was still lacking. Some prospective purchasers took the precaution of using the names of prominent people they knew when placing orders on credit. Credit references accompanied orders; however, in most cases, merchants took their chances.

Terms of sale, as they developed during the 1800s, reflected the changes in the rapidly expanding economy. The 12-month period, which had prevailed, showed a tendency to become shorter. By the 1830s, the average term of sale was about six months.

Hard financial times hit the country in the mid-1830s. The population was rapidly growing and business was expanding. The sale of land on credit went virtually unchecked. The banking system was not centralized. By the summer of 1837, bank after bank closed its doors and thousands of businesses went into bankruptcy. The financial panic of 1837 saw the beginnings of the Mercantile Agency, established in 1841 by Lewis Tappan.

Lewis Tappan, an owner of a failed business, realized that reliable information, properly gathered and analyzed, was the one basic element credit, to that time, had lacked. Lewis Tappan understood that a number of the larger eastern wholesalers sent agents on the road to gather what information was available on prospective customers. At best, this expensive system had limited success, mostly because the agents could cover only a small area. In addition, by the time agents returned to headquarters, the information they had gathered had become obsolete. Too often a trader they had recommended would be bankrupt before he could pay for his goods.

Lewis Tappan had a better idea; he would use local people he could trust to report on prospective seekers of credit. Tappan created the Mercantile Agency, using men of his acquaintance to gather information. He later expanded his reporting staff to include reputable lawyers one of whom was Abraham Lincoln of Springfield, Illinois. It was this credit information agency, which eventually became Dun & Bradstreet, that helped transform credit and with it, the course of American commerce.

The story of American credit as we now know it was not solely influenced by Dun & Bradstreet. Another organization important for credit managers worldwide was formed in 1896 in Toledo, Ohio. A group of credit executives, representing a hundred or so of their colleagues, organized themselves into a national association for credit managers the National Association of Credit Men. Their exchange of credit information was at first conducted on a local and regional level. The association expanded into the **National Association of Credit Management** (NACM), which today with its network of Affiliated Associations represents 30,000 credit executives worldwide.

The purposes and objectives of NACM are:

- To promote honest and fair dealings in credit transactions.
- To assure good laws for sound credit.
- To foster and facilitate the exchange of credit information.
- To encourage efficient service in the collection of accounts.

- To promote and expedite sound credit administration in international trade.
- To encourage training for credit work through colleges, universities, home study courses and other means.
- To foster and encourage research in the field of credit.
- To disseminate useful and instructive articles and ideas with respect to credit management techniques.
- To promote economy and efficiency in the handling of estates of insolvent, embarrassed or bankrupt debtors.
- To provide facilities for investigation and prevention of fraud.
- To perform other such functions as the advancement and protection of business credit may require.

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