point of reference for other health organizing projects which will spring up. As our health needs remain unmet and the inequities of the health care system become more and more apparent, we will pressure, not the promoters and front men, but the health elites and the economic base of their power. Our goal is easily accessible, community controlled, quality health care which meets the health needs of everyone.

## HOUSING

Housing is one of the basic necessities of man. But in Cleveland, as in other cities, people often have no choice about living in housing which is inadequate. In Cleveland (popula-tion 750,903) there are 147,154 residential structures which contain a total of 246,102 housing units. According to a report put out by the city of Cleveland's Community Development Improve-ment Program, 59,660 or about 40% of these structures are substand

Most of these substandard dwellings are located within a two mile radius of Public Square in downtown Cleveland, an area which includes the portion of Euclid Avenue which was once called "the most beautiful street in the world." It was here that the wealthy of Cleveland built their giant mansions in the late 19th century. Today Euclid and the streets that feed into it are depressing examples of urban decay. The near West Side and Tremont areas, once considered prime areas to live in, are almost as bad. What's behind the decay of one of the largest and wealthiest cities in the country? Why do the low income and working class people of Cleveland have to live in substandard houses? Why is the majority of the black population crowded into substandard housing on the east side of Cleveland?

### WHY A HOUSING PROBLEM EXISTS

The urban decay began as early as the 1910's and 1920's when the Van Sweringen Brothers built the Shaker Rapid which encouraged wealthy people to move out of the city. The rich were quickly replaced by the crunch of incoming new ethnic groups in-cluding blacks and middle and southern Europeans. To house the influx of immigrants big, old houses, mostly on the east side, were converted into 2,3, and sometimes 5 family units. Landlords saw the profits to be made by converting a house to several units and since the demand was greater than the supply, landlords could charge high rents. Twenty-seven percent of these reconverted houses are in extremely deteriorated condition.

The housing situation worsened during the 50's and 60's due to the arrival of more than 300,000 blacks who settled mostly on the east side, and the influx of Puerto Ricans, Appalchian whites and Indians, most of them poor, who usually settled on the west side. Some families were paying $150 a month for a deteriorated 5 room apartment. Absentee landlords often have milked apartments and the large, converted homes with the result that today most of these inner city dwellings are substandard or condemned as uninhabitable.

One of the main reasons new building has not been able to keep pace with demand is that land in Cleveland is very expensive. The more expensive the land, the less feasible it is to build on. When the supply of housing is not keeping pace with the demand for housing this in itself forces up the cost of land. Houses and the land they are built on must then be purchased at premium rates. Also when old houses are torn down and not replaced the price of land goes up since the supply of housing has been decreased even more. Land speculators can withhold land knowing they will be able to drive up the selling price.

In Cleveland as of 1968, 67% of the housing units were built before 1920. Many of them should be replaced. Also very little new housing has been built since 1948. If there had been a policy of rebuilding where old houses once stood as well as constructing new units on vacant land, then the demand would not have skyrocketed in comparison to supply.

The policies of financial institutions have been another major factor in the creation of Cleveland's slums. Under the Federal Housing Administration program, banks lent millions to middle class Clevelanders who wanted to buy homes in the suburbs, leading to the 1950's outmigration to the suburbs. FHA provides insurance for bank mortgages so the banks and the savings and loans can never lose money on an FHA mortgage since if someone buys a home and defaults, FHA must pay the financial institution the remainder of the mortgage. Usually with an FHA guaranteed mortgage, the buyer pays a smaller down payment and interest rate. The logic behind this is that since the banks and savings and loans can't lose any money on FHA loans, then a lower interest rate and smaller down payment should be possible.

FHA is attractive to those with little ready money who would not be able to buy a house otherwise. In the 1950's when this country experienced a building boom, FHA was primarily offering guarantees for newly constructed units. In Cleveland these units were being built almost entirely in the suburbs. FHA guarantees for mortgages on existing homes were hard to obtain. FHA also had a policy of "red districting" which is a practice of outlining areas in which FHA would not approve loans. The areas red districted in Cleveland were inner city areas. Hence it was almost impossible, under FHA, to buy one's own home within the city. FHA literally drove would-be homeowners to the suburbs.

For blacks, the problem was made worse by the banks' and savings and loans' policy of only lending money to blacks to buy houses in certain restricted areas of Cuyahoga County. One black man recalled how in the late 1950's, he walked into National City bank to see about a loan on a house, and immediately the loan officer showed him a map outlining which areas of Cuyahoga County they would not loan him money for a house. He said he had not bothered to go to Cleveland Trust because they had a reputation for not loaning to blacks at all.

From these policies the pattern in Cleveland developed. White people had FHA aid in buying new homes in the suburbs, while the blacks who could afford to bought older homes in Cleveland without FHA benefits. The majority of blacks could not afford to buy without FHA's help so they were forced to continue renting from slumlords.

Today the FHA office is, by law, not supposed to red district but the banks and savings and loans can still do it by labelling an area a "high risk area." If a person wants to buy in a high risk area such as the inner city, he must pay an unusually high down payment - sometimes as much as a third of the total cost - and a high interest rate. Anyone who can afford these higher rates can, of course, afford to buy a house in the suburbs which is what they end up doing. The "National Survey of Housing Adandonment" written by the Urban League said:

> After interviewing a number of bankers in Cleveland, it was evident that not a single financial institution would make a conventional mortgage on a property located in either Hough, Cedar-Central or Glenville. Banks, in general, considered mortgage investments in any central city area irrespective of racial composition as less than desireable.

With the banks actually discouraging people from investing in inner city housing nothing but a deteriorated inner city can be expected.

Savings and loan associations mirror the banks in their policies. Savings and loan associations were created in the 1930's to provide money for mortgages through deposits by customers in savings accounts. Since they are the largest source of mortgage moeny for home buyers, they have considerable power to determine who gets a mortgage and where they can move. But absentee slumlords don't seem to have much problem financing their rundown inner city buildings. Broadview, Cleveland's largest savings and loan association, for example, financed in 1966 a seven-unit near west side building which is extremely rundown with numerous housing violations. West Side Federal Savings and Loan has also financed deteriorated buildings in Tremont. Slumlords couldn't buy these properties and keep them in a rundown condition unless they were able to obtain financing from the savings and loan associations. The financial institutions are making profits, and so are the slumlords. It is just the tenants who must suffer.

ATTEMPTS TO SOLVE THE PROBLEM: PUBLIC HOUSING

Cleveland is nationally known as a pioneer city in the field of public housing. Cleveland's Metropolitan Housing Authority, established in 1933, was the first such local housing authority in the country, and Ernie Bohn, its director for over 40 years, is nationally famous as "the father of public housing in this country." But the history of public housing in Cleveland, and in fact in the nation as a whole, is one of almost total failure. Measured in terms of quantity, public housing has barely scratched the surface of Cleveland's housing needs. Measured in terms of quality, most public housing falls far below any reasonable standard of comfort and dignity.

Some critics have argued that public housing has failed simply because it is public, that is, that the government should never have been expected to perform as well as private business in the field of housing. According to this argument, housing, like any other "commodity," should be left to private enterprise. But the major reason for the failure of public housing is that government never made enough of a commitment to public housing. From the program's beginning in the 1930's, public housing was seen solely as a stop-gap measure. The idea was to build temporary low income housing for those who were temporarily having financial problems, but would soon be on their feet again and able to afford housing on the private market. Since it was a stop-gap measure, as little as possible was built, and that at the lowest possible cost.

What happened, of course, is that the poverty problem did not just vanish in the decades after the thirties. Many people who had entered public housing as a temporary measure in the 30's and 40's ended up staying there permanently. By now there are many Cleveland families which span three generations as public housing residents. Existing public housing projects have become permanent refuges for the poor, and, because of their high concentration of social problems, are often less attractive to low-income tenants than the old slum neighborhoods.

In fact, urban poverty rose disasterously in the 50's and 60's, but planners and policy makers still did not recognize the need for a public commitment to a long-term, high quality, building program. Throughout the country, only 500,000 units of public housing have been built since the 1930's, compared to an estimated need for 6 million by 1978. In Cleveland, only 10,196 units have been built since 1937, although an estimated 30,000 more units are needed.

There is another reason for the failure of public housing in Cleveland. As head of the Metropolitan Housing Authority and, for many years, also the director of the City Planning Commission, Ernie Bohn was a virtual dictator of public housing policy. He could determine where projects were built and who could live in them. Unfortunately, his policy was generally one of segregation: black tenants were assigned to east side project whites to the west side.

Bohn's resignation in 1968 brought little improvement to the public housing scene in Cleveland. Segregation is no longer the Housing Authority's official policy, but City Council is severly limiting where public housing is built, and in what quantity. Although CMHA estimates Cleveland needs 20,000 new public housing units, and even a City Council report recommended that 6000 new units be built in the next two years, City Council in May, 1971, limited the Housing Authority to the construction of only 2500 units over a period of 2 years. Both black and white councilmen voted for limiting public housing, fearing that it would bring poor people into their wards. It is easy enough to condemn such prejudices as irrational and bigoted, but the fact remains that public housing in Cleveland has come to mean segregated, second-class housing-- undesireable to those who must live in it and those who must live near it.

## CDF AND PRIVATE HOUSING

Cleveland businessmen began to take an interest in housing in the early fifties, when large areas of the city were already well on their way to being slums. For the steel industry, for example, housing for blacks was a matter of immediate self-interest. Black workers, coming to Cleveland in the forties, had found themselves welcome only in the already-deteriorated neighborhoods just to the east of the Flats. According to Business Week ~~(4/5/58)~~, ~~Republic Steel discovered~~ that ". . .worker efficiency suffered as the dingy old slums cracked at the seams under the population pressure." Oligarchs from other industries had no interest in housing per se, but knew that replacement housing would have to be provided before the Federal government would OK urban renewal in and around the downtown areas. In the spring of 1954, Thomas Patton, then Vice President of Republic Steel, called together fellow oligarchs Elmer Lindseth (of CEI), John Greene (of Ohio Bell), J.C. Virden (of the Federal Reserve Bank) and a few others to put together a private foundation to plan and provide seed money for urban renewal. Cleveland's then largest firm, Patton's Republic Steel, put up the largest initial donation, found office space for the new Cleveland Development Foundation in its own corporate headquarters, and provided drinks and lunches at the early board meetings. The oligarchy was ready to build for the masses.

The well-advertised failures of public housing projects are often cited as arguments for leaving low-income housing development to the private sector. CDF's two great contributions to low-income housing, the Garden Valley and Longwood projects, seem in retrospect to have been designed as the perfect counter-examples. Failure was built into CDF's starting principles: first, black housing should be built only in black areas. This was not due to a conscious policy of segregation, an ex-CDF staff member recently told us: "In those days it never occured to us to build anywhere else." Second, CDF was determined that its housing should be self-sustaining, in fact, profitable for private builders. CDF was a revolving fund, not a charitable foundation, and besides, it was interested in housing black workers.

If CDF's first project, Garden Valley, subsidized anyone, it was Republic Steel. There was almost no vacant land in the existing slums, with the notable exception of a huge gully used by Republic as a slag dump. (Slag is a blast furnace waste product.) It was an inauspicious site-- surrounded by the city's worst slum, far from shopping areas and transportation, and with a reputation for lurid crime. Mayor Celebrezze was probably correct when he declared "If the Cleveland Development Foundation's plan to build a Garden Valley development for slum families on filled land is successful, it will be the greatest accomplishment in Cleveland's history." Republic Steel offered to sell the land to the city for renewal at a "reduced" price. When the city nevertheless demurred because the cost was too great, CDF (backed by Republic money,) obligingly lent it the money. The city in turn agreed to let Republic continue to use part of the land as a slag dump, an arrangement which, according to 1971 mayoral candidate Joseph Bartunek, reduced by one half the land available for housing and greatly delayed construction.

The housing finally began to come up in 1956, two years behind schedule. CDF, not the city, recruited the builders and lent them the start-up funds. But a dump is a dump. First the tenants complained that the site of a promised playground was still an unfilled ravine. The city began to fill it-- with garbage!!-- until the tenants began to complain about the obvious health hazard created by an open pit of garbage on the grounds. Obligingly, the city curtailed the garbage deliveries and dispatched a steady stream of trucks bearing fill from a downtown construction site. According to a local minister, the fill trucks began arriving at the rate of seven a minute, 18 hours a day. When a speeding dirt-laden truck killed a Garden Valley child (who was in the street because there was no playground), the tenants poured into the street to protest by blocking all truck traffic. According to Cleveland journalist Roldo Bartimole, the protesters only dispersed when a cavalcade of open slag trucks, scattering hot bits of slag, raced onto the scene from nearby Republic Steel. Meanwhile, the would-be playground site had been filled and overfilled, causing the sewer pipes underneath to crack under the weight, and the sewage to back up into the houses. Garden Valley never got over it. Even before it was completed, it had become, with Longwood, a hated symbol of black containment.

Garden Valley and Longwood were already well-established failures when, in the late 50's, first a recession and then a strike hit the steel industry. Men who had been stable tenants found themselves jobless, unable to pay the rent. When CDF's elite trustees took a self-congratulatory bus tour of Longwood in 1958, they were trailed by pickets demanding rent reductions. Many formerly working class black families were forced to crowd back into the old slums, such as Hough, and vacancy rates at Garden Valley and Longwood rose to more than a third. The projects' owners began to lose money, and stopped making repairs.

CDF's 1300 unit housing misadventure might have shattered the confidence of more sensitive men. But the Cleveland oligarchs felt that, if they had erred at all, it was on the side of generosity. Not only had they built for blacks, they had built too much for blacks! E.W. Sloan, oligarch and former CDF chairman, explained in an interview in 1971 that "After Garden Valley there was really a surplus of housing. That's why Garden Valley and Longwood had so many problems. Garden Valley was never more than two-thirds full." In 1964, a Ford Foundation sponsored study of CDF and development funds in other cities reported on CDF's self-image:

> The [Cleveland] Development Foundation believes that its public image is satisfactory, and there have been no charges of the Foundation favoring its own industrial positions. . . . There may be some feeling that its objectives are too oriented towards minority interests, and in the minds of the minority there may be some feeling that it is an ambivalent Santa Claus.

After the Garden Valley and Longwood debacles, CDF turned to urban renewal. As it turned out, CDF was to have more impact on Cleveland's housing situation through its urban renewal activities than it ever did in its housing ventures. Under the guidance of CDF's oligarchic trustees, urban renewal came to mean one thing in Cleveland: the destruction of housing to make way for office buildings, factories, universities and hospitals, and, in some cases, just empty, unused lots. (See Chapter III on Health.)

Ironically, this massive urban renewal program has not even succeeded in CDF's terms. Some of the largest projects, such as Erieview and the University-Euclid project, dragged on for years after land had been cleared. Outside developers and industrial tenants were just not as interested in moving to Cleveland as CDF had hoped. In 1967, Cleveland's urban renewal program became a national scandal when the Federal Housing and Urban Development administration cut off all urban renewal funds to Cleveland, pending some signs of progress. Federal funds were restored under Mayor Stokes, but the many empty lots and abandoned buildings in Hough (the University-Euclid project area) are still proof of urban renewal's destructive effects on housing in Cleveland.

CDF provided the leadership for Cleveland's urban renewal mess; but the taxpayers provided the funds. Under the Federal urban renewal program, 75% of land-purchase funds are from the Federal government, 25% from the city; all are ultimately from the taxpayers. So far millions have been spent on urban renewal in Cleveland, and much of that has vanished into the pockets of private developers. Under urban renewal, the city has customarily bought land at the high prevailing costs and sold it to private developers at very low costs, thus guaranteeing the developer enormous profits. For example, the city paid an average price of $25 per square foot for the land for Phase I of the Erieview project-- then sold it to Columbus-based developer Galbreath for $4.65 per square foot! With the government's so generously subsidizing a wealthy private developer, it's hard to see how anyone could complain about subsidized housing for the poor.

## THE COMMUNITY HOUSING CORPORATION

Public housing hasn't worked out, and under CDF, private housing has been even more disastrous. The fashionable approach to the housing crisis in the late sixties was to give nonprofit, community groups a chance to solve the problem. Unfortunately, they were never given the funds or the technical assistance which would be necessary to take even the first steps toward a solution.

In 1969 CDF formally bowed out of the housing field and pledged over $6 million to the newly created Community Housing Corporation(CHC), a private, nonprofit organization which included both oligarchs and community representatives. CHC was charged with the task of providing technical assistance, option and fee money as well as land banking for community nonprofit housing sponsors. At this time several community groups, with the assistance of suburban church money, were either trying to build new units or rehabilitate old ones and some were having minimal success. CHC was going to provide such groups with the necessary skills and money to try to meet housing needs of the community. Funding came through Cleveland Now! amounting to over a million.

The goal for 1969 proclaimed by Mayor Stokes was 4,600 units of new or rehabilitated units to be produced by CHC. CHC has never come close to that goal (it has so far provided only a few hundred units). Nor have they provided any of the necessary functions to community groups as it was designed to do. An evaluation prepared by the PATH Association, a nonprofit citizens' group concerned with housing, describes the failure of CHC. The report states that CHC did not fail because community groups weren't asking for help, but because the CHC board never got CHC to function. The report lays the blame on CHC's chairman, oligarch Fred Eckley, Chairman of Ohio Bell. It said: "The chairman did not really take his role with CHC seriously. Whatever the reasons are, the facts appear to sustain the contention that the leadership of the chairman and the board was lax." Community groups ended up with only 8% of the resources of CHC. This is not because they didn't need more, but because CHC did not assist them nor did they even want to become involved in what it called "community group politics" and "amateurism." Of course, CHC was supposed to provide the technical assistance to overcome the amateurism.

The oligarchs' latest move was to make sure CHC really failed by reneging on its pledge of $6 million. In a meeting at the Growth Association (the Chamber of Commerce) on June 18, 1971 to discuss the future funding of housing groups, the businessmen said they would not fund any proposal for a community wide housing organization to assist nonprofit housing groups. When reminded of their pledge of $6 million, they quickly denied it. The gentlemen at the meeting included five oligarchs: Tullis, Dively, Reavis, Lindseth and Patton. Tullis was consequently invited to a meeting of some of the city's community nonprofit housing sponsors to discuss the situation. He failed to show. His and the oligarchy's position is very clear.

* * *

The housing crisis is a very immediate and human crisis for thousands of Cleveland families. They have seen their homes destroyed to make room for institutions they may never use, for office buildings or for empty lots. Blacks have been pushed into a dwindling supply of housing on the east side, forced to pay middle class level rents for low class housing. White people on the west side aren't faring much better. They have seen their neighborhoods sliced up by highways, or left, by outside landlords, to decay. The city is becoming an expensive slum.

Nearly 40 years of efforts to do something about the low income housing shortage have gone by: public housing, private housing under CDF, nonprofit, community-sponsored housing under CHC. All have failed. Why? Because the people who make decisions about what housing will be available, for whom and at what cost, are just not interested in providing decent housing. The banks, the builders and developers are interested in profits--and high quality, low cost housing simply isn't profitable. The oligarchs, who have influenced the housing situation both directly, through agencies such as CDF and CHC, and indirectly, through their control of the banks, are interested in making Cleveland safe and attractive for industry. This means more office and institutional buildings, and more factory space-- not more housing.

Their approach to the problem of slums is in effect, to try to sweep them under the rug, crowd more and more people into tighter and tighter slum areas, especially if the people are black. But the problem will not just go away. Cleveland must have an adequate, aggressive, publicly accountable housing program soon or it will sink from a major city to a nearly uninhabitable shell-- a valley of factories surrounded by a strip of slums.

## CONSUMER CONCERNS-- WHO'S RESPONSIBLE?

Every year thousands of consumers in Cleveland suffer at the hands of merchants, finance companies and banks. Merchants lure consumers into their stores with misleading ads, then sell them low-quality goods at exhorbitant prices. When the goods are bought on time, the sellers tack on a 25-35% finance charge and often sell the contract to a finance company which then collects the debt from the consumer. If the consumer misses a payment or two, the creditor can, and frequently does, accelerate the remainder of the debt, thus making the entire balance due immediately and the creditor gets a judgment against the consumer without his knowledge. He can then reposses the merchandise, sell it at a private auction for a price way below its market value, and take a portion of the consumer's wages (garnishment) to collect the balance of the debt.

The magnitude of the problem is suggested by the amount of consumer debt in the Cleveland area and by the frequency with which creditors take consumers to court in order to collect unpaid debts. The precise total of consumer debt in the area is not known, but estimates based on national figures suggest that there is more than $1 billion of consumer debt in Cleveland and that this sum represents over 19% of all disposable personal income. This national data also indicates that since the end of World War II, consumers have had to use a larger and larger portion of their incomes to pay off consumer debt. In 1946, consumer debt represented 5% of disposable personal income. By 1955, this figure had grown to 14%, and by 1968 it exceeded 19%. The expansion of consumer debt is an important reason for the growth of the economy from the late forties to the late sixties. However, it also contributed to the recent recession and has been making it very difficult for working people, whose spendable income is lower now than it was in 1965, to make ends meet.[1]

The growth of consumer debt at a more rapid rate than disposable income is one reason that creditors have been getting so many judgments and garnishments against consumers. Between 1965 and 1970, the Cleveland Municipal Court rendered more than 100,000 confession and default judgments (court decisions that a debtor has defaulted on a loan) worth nearly $60 million.[2] During the first six months of 1967, there were 28,000 garnishments in the city.[3]

## SMALL MERCHANTS AND LOCAL FINANCE COMPANIES

Traditionally most of the blame for consumer fraud has been assigned to the local finance companies and small merchants that operate in low income areas. Clearly these businesses are guilty of some of the most blatant abuses. This exploitation commonly takes the following form: Furniture and appliance stores, used car lots, home repair outfits, and other small retailers use deception and high pressure sales techniques to unload shoddy goods on consumers at inflated prices. Within a couple days after the sale, these retailers sell the contracts to finance companies without the permission of the buyer. As "holders in due course," the finance companies can legally collect the debt, even if the consumer was defrauded by the merchant.

Examples of unfair sales practices, the sale of low quality goods at exhorbitant prices, and the purchase of "bad contracts" by small finance companies abound. The kinds of consumer exploitation described below are experienced by thousands of Clevelanders every year. Recently, a Cleveland couple expressed interest in purchasing aluminum storm windows from Coventry Builders, part of a home improvement conglomerate that includes Star Builders and Assured Home Improvement. The two salesmen that Coventry sent out, however, were more interested in selling an expensive aluminim siding job than the storm windows. Although the couple said that they couldn't afford and didn't want the siding, the salesmen talked them into signing papers which the couple thought only granted Coventry permission to chech their credit rating. A week later they realized that one of the papers they had signed was a contract for $3400. When they called Coventry, these consumers were told that they either had to take the siding or pay more than $1300 to cancel the deal. When they refused to do either, Coventry filed a suit against them to collect the money.[4]

Companies like Coventry Builders frequently sell their contracts to finance companies (often called "acceptance companies" or "credit corporations"). The local finance company which probably buys the most contracts from exploitative merchants is Domestic Credit Corporation. In October, 1970, Domestic got 161 judgments against consumers, more than twice as many as any local bank and more than five times as many as any finance company.[5]

In 1967, a Cleveland consumer bought a sofa, chair, two lamps, two tables and a used washing machine from S & S Furniture for $800, including finance charges. Domestic immediately bought the contract. Two weeks after the merchandise was delivered, the washing machine broke down. S & S replaced it, but a week later this replacement stopped working. When the consumer called S & S, he found they had gone out of business. But Domestic hadn't. For four years Domestic collected payments from the consumer. When the consumer couldn't make his monthly payments because he didn't have a job, Domestic refinanced the debt. By February, 1971, the consumer had paid nearly $500-- far more than the living room set which had started to deteriorate after a year was worth-- but still owed more than $1000. A couple of months later Domestic got a judgment against the consumer. It was trying to collect more than $1400 for a shoddy living room set and a used washing machine that didn't work.

When consumers have lots of bills, they sometimes fall prey to dishonest debt consolidators, small businessmen that take a debtor's money and supposedly use it to pay off his creditors. Quite a few consumers in the city have had unpleasant experiences with Consolidated Adjustment Company, which operates from an office just outside the city limits. One local consumer was having trouble keeping track of alot of small bills. Consolidated said it could help. So the consumer signed a contract and started making payments of $35 a week to Consolidated. Yet these payments were not used to pay off creditors-- they were pocketed by the adjustment company. An investigation revealed that these creditors either had not heard from or refused to deal with Consolidated.

## LARGE FINANCE COMPANIES, BANKS, AND MANUFACTURERS

While smaller businesses tend to practice the more blatant kinds of deception and fraud, the big nation-wide finance companies, banks, and large corporations hurt consumers more. They do this in two ways-- first by charging exhorbitant rates on consumer loans. Banks charge less, but are often just as relentless as the finance companies when their customers miss a couple of payments. Large corporations make the shoddy merchandise which is an important basis of consumer exploitation. The second, less direct exploitation results because these larger business institutions sustain the small merchants and local finance companies that take advantage of consumers. Banks provide these small businessmen with most of their capital, and the nationwide finance companies buy thousands of contracts each year from the smaller retailers. In addition, many small and large finance companies are only able to get customers because the banks generally refuse to lend money to low income consumers, whom they consider high credit risks. It should be noted that the nation-wide finance companies also depend on the banks for capital, while a few, like General Motors Acceptance Corporation, rely on large corporations for products to finance.

To borrow money from any finance company in the area, consumers have to pay absurdly high interest rates. On a two year installment loan of $500, consumers have to pay a true annual interest rate which is in the neighborhood of 35%. On a loan of $1000 for the same period, they pay an interest rate which approximates 30%.[6] A living room set costing $499 bought on time and financed through Beneficial for two years will end up costing $675. If a consumer gets a two year installment loan from Household Finance, to purchase a car costing $1085, he will have to pay off a debt of $1375. Although banks lend money to finance companies at pretty high rates-- around 8-14% depending on factors like the size and stability of the company, the general level of interest rates in the economy, etc., these rates are much lower than those which finance companies make consumers pay. Moreover, the finance companies make an effort to hide true finance charges. Generally the stated finance charges do not include credit life insurance and assorted other charges. Some finance companies, like City Loan and Savings, quote interest rates of 7-9% on loans which really cost 30-35%.

Finance companies also buy contracts from merchants with a dubious business reputation. "Respectable" Household Finance purchases contracts from one of the most exploitative outfits in the Cleveland area, Strollerchair, Inc. In early May, a Strollerchair "peddler" pressured a couple into signing a $540 contract for a babychair they weren't interested in and couldn't afford. The next day the wife asked the company to cancel the contract. It refused and immediately sold the contract to Household Finance.

Beneficial Finance gets contracts from a company, Evergard Associates, that practices such abusive selling techniques that the FTC has been investigating them for years. Evergard sells fire alarm systems by offering the prospect of part-time employment and by using a hard-sell approach. Not long ago, a Clevelander answered an Evergard ad for a part-time job. He was told by Evergard that he could sell fire alarm systems either on a direct hourly wage basis or, if he agreed to install the set of fire alarms in his home, on a commission basis. He was persuaded by the company to sell on the latter basis, even though it would cost him $346 for the alarms and finance charges. Yet, he was told that if for any reason he did not want to keep the alarms, they would be removed, free of charge.

The Clevelander was eager to start working until he learned the kind of sales pitch which Evergard uses. As part of his job, he had to give his employer a list of friends who might be interested in buying the alarms and accompany an Evergard representative on visits to these people. On the first visit, he was shocked by what the salesman told his friends. Among other things, the Evergard representative said that if there was a fire in the house and there were no alarms, they would undoubtedly die of toxic gases within two minutes. He then called Evergard to get them to release him from the contract, but was told that the contract had been sold to Beneficial Finance and that he would have to pay $125 to get the alarms removed. This contract is not the only one Beneficial has bought from Evergard. A branch manager of Beneficial admitted that since 1965, they have bought 50,000 Evergard contracts.

When consumers get behind on their monthly payments, finance companies large or small will use "scare tactics" of dubious legality to collect payments. After the husband of one Cleveland consumer left her impoverished, Beneficial Finance sent her threatening letters, including a bogus court judgment.

Banks are responsible for most consumer problems. In the first place, both national and local finance companies get most of their capital from large banks. Local finance companies have credit lines at a number of city banks. Often there is even closer cooperation. Jack W. Lampl, a director of Cleveland Trust, is also president of Sun Finance. Sun is the one large finance company (sales of $33 million) operating in the area that has headquarters in Cleveland.[7]

Banks also loan consumers money. At the beginning of 1970, twelve large city banks had $644 million in consumer credit outstanding on which consumers paid roughly $100 million in interest in 1970.[8] On the portion of this credit which was used to buy autos and make home repairs, consumers had to pay finance charges ranging from 11% to 14%. On the $26 million borrowed on credit cards, debtors paid up to 18%. Bank credit cards are especially abusive, not just because the 18% interest on the unpaid balance, advertised as 1 1/2% a month, is at least 50% higher than the cost of a bank loan, but because the stores that honor these credit cards must pay 3-5% on the charge accounts serviced in this manner. This cost is passed on to consumers in the form of higher prices.

When the debtor is late on a couple of payments, banks can be just as nasty as the smaller finance companies. National City, second largest bank in the city and forty-eighth largest in the country, is harsh on debtors who fail to make payments on time. Two years ago, a Cleveland couple bought a car which cost more than $4000 (including finance charges) through National City. For a year and a half, they made monthly payments on time until they had repaid more than $2000 of the debt. Then the couple was forced to make a couple of late payments because the husband was laid off. A few months later, the consumers unknowingly wrote a check on money from supplementary unemployed benefits that took longer than expected to process. Even though they were paid up at this point, when the check failed to clear, they received a letter from National City stating that the remainder of the debt had been accelerated and had to be paid in full within less than two weeks. Immediately they called the bank and pleaded with the collection department to accept a money order, but the bank refused.

Central National Bank also uses collection tactics which are abusive to consumers. Two years ago, a Cleveland housewife acquired a Central National Bank Master Charge card. For a year and a half, she charged goods worth about $1000, but she also paid off most of this debt. At the end of this period, she repaid the principal and owed only the finance charges. The consumer then told the bank officials that her husband had been laid off and could only afford to pay off the finance charges in small amounts. But Master Charge refused this offer and removed $106 from the family's checking account at Central National without telling the consumer.

Small loan companies like Liberty Loan, Royal Acceptance, and Domestic Credit appear to be hard on consumers. But the banks usually get more judgments against consumers, and these judgments are for larger sums of money. In October, 1970, the Cleveland Municipal Court rendered at least 40 judgments for each of five large banks in the area-- Cleveland Trust, Society National, Continental, Union Commerce and Central National. Only one finance company, Domestic Credit, got more than 31 judgments. In the same month 6 banks, Central National, Continental, National City, Society National, Union Commerce and Cleveland Trust - obtained 79 judgments greater than $1000 while the 62 finance companies who took consumers to court got only 83 judgments that were this large.

As a result of these and other activities, bank profits have soared. Between 1965 and 1970, the profits of Cleveland Trust rose 72%, those of National City 54%, those of Central National 60%, and those of Union Commerce 61% (profits before security gains and loses were taken into account).[9] The profits of the 15 largest banks in the area during 1971's first quarter were 27% higher than those during 1970's first quarter. The profits of Cleveland Trust, the city's largest bank, went up 60%-- from $5 million to $8 million.[10] Even after the effects of inflation are subtracted bank profits have been exhorbitant.

Large manufacturers must also share a large portion of the blame for consumer problems. In the first place, these corporations make the shoddy products which are an important basis of consumer exploitation. Used car dealers justifiably have a bad reputation among consumers. But a major reason they sell so many worthless cars is that GM and Ford, the largest and third largest corporations in the U.S., deliberately make automobiles which don't last. Instead of using profits to make safer, cleaner, more durable cares, GM and Ford have spent enormous sums of money to advertise, make design changes, move into other fields like defense, and invest in overseas operations. Recently GM has been spending nearly $1 billion a year on design changes and nearly $250 million on advertising.[11] Yet, they have deliberately made cars less durable so that they can make more money selling replacement parts. Tests by the Insurance Institute for Highway Safety showed that a head on collision at 5 mph produced an average of $116 more damage to 71 cars than to 70 models, over half of which are made by GM. Only 30% of this $116 represents increased costs for parts and labor.[12] Moreover, GM has been spending only $40 million a year on pollution control-- only 0.17% of gross annual sales, and GM refuses to tell the public about their pollution control expenditures. As a result, the large auto companies must take part of the blame for the low quality cars used car dealers sell at inflated prices.

Manufacturers must also share part of the responsibility for abuses in consumer financing. GM, for example, operates the largest finance company in the nation-- General Motors Acceptance Corporation-- which finances the sale of many GM cars. Unfortunately consumers often are not the beneficiaries of this cooperation. Last fall, a Puerto Rican workingman who does not speak English bought a new Nova financed through GMAC. When GMAC raised his payments a month after he bought the car, the consumer thought he was getting insurance which would pay for any damages to the car. After using the car for six months, the man had an accident. When he talked with GMAC, the consumer received the impression that it would pay for damages, so he decided not to send his monthly payment until the car was fixed. That same month, a couple of men stopped at the consumer's home to pick up the car. Believing that these men were sent by the insurance company to get his car fixed, the consumer gave it to them. A short time later, he received a notice from GMAC that the car was going to be sold in a private auction. The two "insurance" men had not come to fix the car, but to repossess it.

Finance companies themselves are often tied into corporations in other sectors of the economy. Aetna, a nationwide finance company with eight offices in the Cleveland area, is a subsidiary of International Telephone and Telegraph. Closer to home, James R. Kerr, president and a director of AVCO Financial Services, another large finance company with nine offices in the area, is also a director of Republic Steel. Most directors of large finance companies that operate in Cleveland like Household Finance and Beneficial serve as a director of at least one large corporation.[14]

## CONSUMER RESPONSIBILITY

Clearly, merchants, finance companies, banks, and manufacturers are responsible for many consumer problems. To what extent are consumers at fault? Business institutions argue that poor money management by consumers is the major cause of credit difficulties. Certainly there are quite a few consumers who default on loans because they can't afford to make payments. But one of the reasons these consumers get so deeply in debt is that banks, finance companies and corporations assualt them with more than $20 billion of advertising each year. This advertising not only tells consumers to buy more products; it also empahsizes the importance of using some form of credit-- credit cards, revolving credit, or bank or finance loans-- to make these purchases. In addition, many of those who default on loans do so because they lose their job after they've gone heavily into debt. Job insecurity has especially hurt blue collar workers, over 8% of whom in the nation are unemployed. Thus, consumers who borrow money are threatened not only by deceptive sales practices and high finance rates, but also by job insecurity which could force them to miss monthly payments.

## LEGAL REDRESS

If a consumer is deceived or defrauded by a merchant or finance company, he usually has no legal redress. What carries weight in court is not the immorality of a consumer's being swindled, but the provisions of the standard contact, which do practically nothing to protect the consumer. One clause in most contracts states that no oral agreements between the buyer and seller are binding. A salesman can lie brazenly to a customer knowing full well that he never will be held accountable for these falsehoods in court. The most odious provision, part of virtually all contracts between lenders and borrowers, is the cognovit or confession of judgment clause. It indicates that if the debt is not paid in full when due, the creditor can win a court judgment against the consumer merely by having any lawyer sign a court record saying that the money is owed. In effect, the cognovit clause takes away the right of a debtor to contest a judgment against himself in court. Other provisions of a standard contract, like the "accelerator clause" are nearly as bad. Even warranties are practically worthless. Rather than protecting the consumer, warranties are designed to protect the seller by limiting his liability for defective goods.

Even when a consumer has a good chance to win a lawsuit against a seller, he can be discouraged by the cost of a lawyer or by the prospect of having to wait two or three years for the court to make a decision. The cost and time of winning a lawsuit are especially unappealing to low income consumers or to the many consumers who are defrauded of less than $100. Last fall a Cleveland consumer bought a second-hand refrigerator for $46.50 from Brown and Sons. Within a day after he bought it, the buyer found that the refrigerator was worthless-- all his food had spoiled. Because the merchant refused to repair or replace the appliance, the consumer filed a complaint in Small Claims Court. Surprisingly, the judge ruled that the merchant should return $25 to the consumer, but the merchant refused, and there was nothing the consumer could do short of hiring a laywer whose services would cost more than the refrigerator.

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In sum, consumers usually are not responsible for consumer problems. When a consumer defaults on a loan, it is usually because he is a victim of advertising pressure, defective goods which he refuses to pay for, high finance rates, or job insecurity. Business institutions are mainly responsible for consumer problems. To make money, business institutions engage in practices which are sanctioned or ignored by laws, but are unfair to consumers. Manufacturers make shoddy goods because they are cheaper and because they wear out quickly and thus stimulate more sales. They are usually able to charge retailers high prices for these goods because of the monopolistic character of our economy. Banks, finance companies, and retailers urge consumers to buy these products on time, mainly because finance charges represent added profit. Banks and large retailers lend consumers money at interest rates of 11-18%. These rates are far lower than those which all finance companies charge, but they are 6-12% more than the banks pay to borrow money from consumers or the Federal Reserve. They are also higher than the rates banks charge large corporations or those who take out mortgage loans. Because it is profitable, banks also provide the most exploitative finance companies and merchants with capital, while large finance companies buy contracts from even the shadiest retailers. Making money is also the reason business institutions engage in deceptive sales practices, and abusive collection methods. All this suggests that the only real solution to consumer problems is not simply tighter regulation, since that won't get at the root of a <u>profit</u> oriented system. Our whole economy must be reoriented from making private profits at all costs and in any way to serving the needs of people.

FOOTNOTES

1. Data on disposable personal income and consumer debt was found in the _Economic Report of the President, February, 1970_.

2. Annual reports of the Cleveland Municipal Court.

3. Warren A. Magnuson and Jean Carper, _Dark Side of the Marketplace_ (Englewood Cliffs, N.J., 1968), p. 45.

4. Examples of consumer problems discussed in this paper were taken from the files of the Consumers' Education and Protective Association (CEPA). CEPA is a group of consumers that fights against exploitation by merchants, finance companies and banks. Since the Cleveland chapter was organized six months ago, CEPA has helped more than 40 consumers and has saved them well over $7500. For more information on this organization, call 961-6633 or write to CEPA, 3500 Lorain, Cleveland.

5. The Daily Legal News and Cleveland Recorder, October, 1970.

6. It should be noted that the interest rate on a two year installment loan approximates the rate on a one year loan that is repaid in full with interest at the end of the year. It should also be mentioned that the method which creditors use to calculate finance rates yields very low figures. The quoted rate on a two year installment loan of $1000 with $300 interest is around 22%.

7. Dun and Bradstreet _Million Dollar Directory_, 1971.

8. The figure on consumer debt to banks was obtained from the Federal Reserve Bank of Cleveland.

9. These figures were derived from data in Moody's _Banks and Finance_.

10. The Plain Dealer, Sunday, May 2, 1971.

11. John C. Esposito, _Vanishing Air_, (New York, 1970), p. 29.

12. New York Times, Thursday, March 11, 1971, p. 67.

13. Esposito, _Vanishing Air_, pp. 28-29.

14. Dun and Bradstreet _Million Dollar Directory_, 1971.

## TAXES: NO ROBIN HOOD FOR THE POOR

The tax burden on Americans is heavy and the returns are often minimal. Put another way, a worker on a 9 to 5 job works from the start of the day until 11:51 AM, virtually the entire morning, just to pay his or her taxes. But what makes it even worse is, contrary to popular impression, the poor pay more: the American tax system is biased. The poorer you are, the larger the percentage of your income is eaten up by taxes.

### FEDERAL TAXES

First there are Federal income taxes. Everyone knows that the Federal tax rates are "progressive"; the higher your income bracket, the higher the percentage of your income which you are supposed to pay in taxes (the tax rate). First of all, there are lots of loopholes which benefit rich people, such as lower rates on certain kinds of income such as capital gains, oil and mineral depletion allowances, deductions for charitable contributions, and tax exemptions for state and local bonds. Take the capital gains taxes. Capital gains is the difference in the price a stockholder or other owner of property buys for and the price he sells for, assuming more than 6 months elapses between the two transactions. Let's say he buys a hundred shares of stock for $50 a share ($5000 overall) in January and sells the block of stock for $60 a share ($6000) the following January. His profit, or capital gain, is $1000. This is taxed at a rate of 25% at present, regardless of the overall tax bracket of the stockholder, so the stockholder pays a tax of $250. Since most major profits on sales of stocks, bonds and other property are mady by wealthy people, who are likely to be in income tax brackets above the 25% level, the capital gains loophole serves to reduce the tax bite on the wealthy. Thus a 1969 U.S. Treasury tax study showed that the low rate of taxation on capital gains had the effect of reducing from 55.5% to 32.7% the effective tax rate for a family with an income of over $1 million. But for a lower middle income family, the effect was negligible: a family in the $5000-$10,000 bracket had their effective tax rate cut from 16.4% to 16.2%

The overall result of the various exemptions and loopholes is that even though the Federal income tax rates are steeply graduated according to income, the actual percentage of their income that people in different income classes pay (the effective tax rate) is much less steeply graduated. (See Table I)

Table I - Theoretical and Real Tax Rates on Federal Income Taxes

| income class (thousands of $) | theoretical tax rate from Federal tax table | actual effective tax rate paid |
|---|---|---|
| $0 - 5 | 14-23% | 15% |
| 5 - 10 | 23-29% | 16.2% |
| 10 - 20 | 33-46% | 17.8% |
| 20 - 50 | 49-62% | 22.8% |
| 1,000 & over | 72% | 32.7%. |

(Source: Federal Income Tax Table, Business Week 2/22/69)

Federal income taxes also hit corporate income. Again, though, there are many loopholes. One Business Week study showed that although the legal corporate tax rate is 48%, in 1965 the effective tax rate on all industries was only 37.5%. Some industries did even better; commercial banks paid an average of 22%, oil companies 21%, lumber companies 29%. In any case, most of the cost of the income tax to corporations is simply passed on to consumers in the form of higher prices. The Wall Street Journal says that the corporate income tax is "treated by corporations as merely another cost they can pass on to their consumers." Because of the near monopoly enjoyed by the giant companies dominating most sectors of the economy, these corporations can pass the tax on by raising prices without being undersold by competitors.

Even aside from their ability to pass taxes on to consumers, corporations are paying an ever smaller share of the overall tax burden. In the early fifties, corporations paid over 50% of all Federal income taxes. By 1960, they were only paying 34%, and in 1971, the U.S. Treasury Department estimates that the corporate share will be down 25%. (American Federationist, June 1971).

There have been several changes in Federal tax laws in recent years, but they have benefitted the wealthy and the corporations more than lower and middle income working people. For instance, the 1969 tax reforms closed off a few tax loopholes used by the rich, but left the biggest loopholes (capital gains, tax exempt bonds, mineral depletion allowances, etc.) almost untouched. And the 1969 act lowered tax rates for all income levels, but lowered the rates for the wealthy more than for the poor. For example, a tax payer in the $4,000-$6,000 bracket had his tax rate cut 1%, from 24% to 23% while a taxpayer in the $32,000-$38,000 bracket received cuts of five percentage points from 61% to 56%. (Remember, these are theoretical tax rates, not actual effective tax rates paid.)

STATE AND LOCAL TAXES

Federal taxes are at least mildly progressive, even if not so progressive as they are often portrayed to be. State and local taxes, however, are actually strongly regressive; the poorer you are the higher a percentage of your income you pay in taxes. In Ohio, for example, the most important state and local taxes up until late 1971 were the sales and excise taxes (including cigarettes and alcohol and gasoline taxes) and property taxes. Both of these tax burdens fell heavily on people with moderate incomes. Lower and middle income people, for instance, pay a larger percentage of their total income on housing, so the tax on residential property hits them harder than it does upper income people. (This is even true for renters, since landlords pass their taxes on to their tenants in the form of higher rents.) For example, the residential property tax in Ohio amounts to an average of 6.9% of the income of families earning less than $2000, 1.9% of the income of those earning $6,000-$7,500 and only 1.1% of the income of those earning over $10,000. Similarly, richer people buy more goods and services which are not subject to sales taxes and buy more goods and services out of state. Thus, an Ohio family earning $5,000-$6,000 pays 1.35% of its income in retail sales and use taxes, while a family earning over $10,000 pays only .91%. (Source: Frederich Stocker, Ohio Tax Study Commission Report, 1967.)

Lets look at the sales and property taxes in somewhat more detail. The sales tax in Cuyahoga County is 4 1/2%. Corporations are in large measure exempted from paying sales tax through the "direct use" exemption. This exemption applies to equipment and raw materials used to produce other products. If a home hobbiest buys a hammer to construct a bookcase, he pays sales tax on the hammer. But if a local furniture company buys a hammer to build a bookcase to sell to the hobbiest, the company pays no sales tax. In summer 1971 an effort was made by Ohio labor unions to force the repeal of this windfall for corporations, but under heavy pressure from industrial lobbiest, the exemption was, as of this writing, in no danger.

Before 1969, the sales tax was only 4%. In 1969 the tax was raised to 4 1/2%. Under the leadership of the United Auto Workers Union, nearly 80,000 signatures were gathered asking for a referendum to roll the sales tax back to 4% in Cuyahoga County. Although only 47,000 signatures were needed to force a referendum, the Ohio Supreme Court, which is usually friendly to business interests, ruled the signatures invalid on a technicality. (Many of the signers did not properly indicate their ward and precinct.) Popular feeling against the increased tax was strong, but the state power structure was taking no chances on anybody's getting any ideas of changing the tax system