THE CONSUMER LOOKS AT INSTALMENT CREDIT

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There is some question whether consumers give much consideration to their own use of instalment credit. They talk and write sparingly about it. They show little concern for the preachment of consumer educators about debt avoidance, high interest rates, and instalment contract terms.

The consumer use or misuse of consumer credit speaks louder than words. Consumer instalment credit outstanding increased from $23.5 billion at the end of 1954 to $29 billion a year later. By the end of 1956 this figure had increased to $31.5 billion where it has shown signs of leveling off. In addition to instalment debt, it should be noted that noninstalment credit hovers near the $10 billion mark, while urban housing credit outstanding amounted to $100 billion in the early months of 1957. Of the total instalment debt figure of $31.5 billion, $14.4 billion or 45% represented debt against automobiles. Indebtedness on cars had risen phenominally during 1955, with unfavorable consequences to automobile sales since that date.

There has been no scarcity of views and conjectures concerning the over-use of consumer credit. Its affect upon borrowers and certain segments of the economy have been alternately excused and exaggerated. The abuse of credit usage has been the subject of cartoons, songs (I owe my soul to the company store), and preachment all over the land. Perhaps Changing Times (April, 1957, p. 2) is typical of these views with the statement that "The people that economists used to say were underprivileged are now described as overfinanced." Consumers have been described as people who use credit to - buy things they don't need, with money they don't have, to impress people they don't like.

The Consumer shows Little Concern for Cost of Credit

Consumer economists and consumer educators have dwelt upon the evils of instalment credit for years. They have usually presented their case in terms of simple interest rates which seem to be excessive. In spite of these preachments however, consumers have borrowed more and more at relatively high rates. Evidently, Consumer economists have used the wrong approach.

In self defense, a number of lending agencies have partially subsidized the presentation of their own explanation of the willingness of consumers to borrow. These arguments usually dwell upon the benefits derived from the use of borrowed funds or the benefits derived from the use of consumer durable goods purchased with instalment payments.

A few scholars have attempted to probe the nature and intensity of the desire for consumer goods. This research into consumer motives may explain the willingness of consumers to overlook interest costs and other aspects of instalment credit agreements.

During 1956, the Board of Governors of the Federal Reserve System curtailed credit in an effort to prolong the period of high level prosperity. The Federal Reserve's policy was not immediately successful. It was thought that consumer credit might have to be regulated. In the controversy that evolved over the Reserve Board's tight money policy, President Eisenhower asked for an investigation into the use of consumer credit and its effects upon the economy as a whole. This inquiry, it was thought, would answer the question concerning the need for consumer credit controls or legislation permitting standby controls.

The Federal Reserve Board Study

On the twentieth of March, 1957, the Federal Reserve Board released five volumes of its six volume staff study on consumer instalment credit. Early press notices of this report concentrated their attention upon the fact that evidence for and against consumer credit regulation was inconclusive. This conclusion seems to have come from a wealth of testimony from many sources concerning the effect of consumer debt upon future sales and upon the economy as a whole. Specifically, it was concluded that the repayment of consumer indebtedness had affected the economy adversely in the early 1930's, but that it had not accentuated recession periods since that date. The consumer propensity to spend up to the limit of allowable credit was examined with the prediction that it will probably continue with an extension into other lines of good s and services. It was generally agreed, however, that the use of instalment credit may level off because it has reached a saturation point at which further extension of the repayment period will yield little additional temporary purchasing power.

Of interest to consumer educators will be the fact that few consumer organizations were asked to present their views on consumer credit. The consumer organizations whose statements were solicited are listed in the fifth volume of the report. Labor organizations, cooperative groups, consumer financed testing agencies, and a few local consumer organizations responded, but the consumer oriented organizations were under-represented because some of them were not asked, and because some of them did not reply. Alas, the consumer's view of this subject is still not known except as others probe into the consumer's innermost thoughts and place words in his mouth.