CONSUMER CREDIT

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Dr. Craig will focus her attention on the effect of consumer credit on the individual family. The following is a synopsis of her remarks:

Credit can be a positive or negative factor in the family economy. As such, it can become a resource or a waste for individual families depending upon the individual unit and/or outside factors.

As such, it can become a tool for the family, enabling it to obtain goods not otherwise considered as consumption options - such as developing equity in durable goods and housing as they use the good. Thus, the household may not find it necessary to save the entire sum before the good is obtained. Hence, you have credit serving as a tool which allows the family to obtain a desired level of consumption at an earlier time.

The overall effects of credit for the family utilizing credit, however, may not be beneficial. Most families will find that the use of credit increases the cost of those goods purchased with credit. In addition, the consumer may find that because he buys only at those stores which do offer credit purchasing, he is reducing the effectiveness of his resource allocation by: 1) spending more for the product, 2) buying a product which does not meet his needs, or 3) buying a product because it is available.

Consumers who utilize credit must exercise caution if they are to make credit serve as a tool and not a liability to the household and economy.

Dr. Brooks will discuss the relationship between the household's use of credit and the overall economy. His remarks are summarized as follows:

The expansion of consumer credit has been closely tied to economic growth. Credit permits consumers to buy things they want today and pay for them with tomorrow's income. But in that early tomorrow, when today becomes yesterday, yesterday's credit purchases do not stimulate the demand for today's goods. Current income committed to repaying yesterday's debts cannot stimulate the demand for today's goods. Consumer credit is a market-stimulator only so long as it continues to expand.

Is the continued growth of consumer credit inevitable? I think not.

It is conceivable that sooner or later the credit users in this country will reach a point of credit saturation. At this point, consumers cannot or will not add any more to their debt load. There are four principal factors which will determine at what point this will occur. They are: 1) the proportion of the population using credit, 2) the amount of credit used by the consumer, 3) the level of income, and 4) the length of the repayment period.

At the present time the proportion of consumers using credit is holding fairly steady at about 50%.

In 1964 median family installment indebtedness was $650, rising to $880 in 1967.

The terms of credit extensions are being lengthened. The most salient statistic is for automobile paper, since automobile credit is the largest single category of consumer credit. In January, 1960, 20% of the new car contracts were for 24 months or less, and 69% were for 31-36 months. In November, 1966, the proportion of new car contracts for 24 months or less had fallen to 15%, but the 31-36 month contracts accounted for 81%.

Disposable personal income (in 1958 dollars): 1960 - $1,883; 1965 - $2,239; and 1970 - $2, 595.

An overall increase of 38% between 1960 and 1970. The increases between 1960-65 and 1965-70 were 19%.

All other things remaining constant, increases in the families' indebtedness will hasten credit saturation. On the other hand, increases in real income of consumers, the percentage of consumers using credit and the lengthening of the repayment period should forstall the credit saturation point -- but not indefinitely. The point at which credit saturation would occur, given present trends, has not been determined.

We already have in this country many consumers who have arrived at the saturation point. They are the families who have declared personal bankruptcy. In the U.S. economy, the number of personal bankrupts has increased 440% since 1954, growing from 43,000 to 191,700 in 1967.

What is the answer? More instruction in consumer credit for our young people would not be amiss. In 1969, only 44% of the consumer education courses in home economics covered consumer credit. The record was better, but not good enough, for consumer education courses in business education, social studies and distributive education with 89, 60, and 80 percents, respectively, covering credit. These findings were reported by Uhl and Armstrong in an article in the Journal of Home Economics.