U-M Economists Cite 'Guilt' Over Installment Buying

ANN ARBOR—Americans are the world's greatest users of consumer credit — but we are not always happy about our borrowing habits, three well-known University of Michigan authorities point out in their new book.

Consumer installment credit outstanding grew in four decades from about $1 billion at the end of World War I to $48 billion in the early 1960's, a rate of growth that was about double the average rate of increase in the national income, it is explained in "Consumer Installment Credit and Public Policy" published by the Bureau of Business Research in the U-M Graduate School of Business Administration.

Author Paul W. McCracken, a former member of the President's Council of Economic Advisers, James C. T. Mao, a specialist in the theory of finance, and Cedric Fricke, one time economic researcher with a major automobile manufacturer, point out the advantages of this economic development:

"The rapid growth in the volume of installment credit was accompanied by an equally vigorous development in other characteristics of the industry. The purposes for which credit can be obtained have broadened considerably from those of earlier years. From financing people in distress, or in want of a piano, sewing machine, or piece of furniture, consumer credit has come to be used widely by consumers in financing the array of consumer capital goods with which the typical modern household is equipped.

"Lending institutions have also displayed a characteristic American penchant for innovation by adapting the form and terms to meet new needs," the U-M authorities say.

"Down payment requirements have been reduced and terms liberalized . . . And in the process additional numbers of families have found it financially possible to acquire some of the appurtenances of a higher material level of living than had heretofore been within their reach. With these developments installment borrowing achieved respectability and status."

Emergence of a well-developed installment credit industry was essential to the whole process of mass production for new mass markets, which require that means of financing be readily available to consumers, they add.

"At the same time that we recognize intellectually the role of the installment credit industry in promoting our economic progress, as a nation we are still not entirely sure whether we feel very happy about the rapid expansion in the use of credit by consumers," they declare. "To some extent this may reflect a cultural lag, another manifestation of how the sins of the fathers are visited upon the children.

"In its early history, lending to consumers did have its less happy aspects: costs were high, and advantage was often taken of borrowers' ignorance. It may well be that subconsciously we continue to wonder if those evil practices are lurking in the shadows, awaiting an opportunity to spring out at us if we do not keep up our guard."

As a result of this ambivalent view, we can welcome and applaud the automobile, appliance, and other great industries as "evidence of America's peculiar genius for progress," and at the same time feel uneasy about the rise in use of consumer installment credit, the authors explain.

The book raises five key questions and answers them this way:

1) Do movements in consumer installment borrowing make the economy significantly more unstable? Not significantly, the authors say. They are a source of changes in general business conditions but not a major part of the problem.

2) Is direct regulation of installment borrowing essential for the effective operation of general monetary and credit policy? No. Present instruments of monetary control can be expected to limit appropriately the expansion of total credit, the authors point out. Since 1951 the Federal Reserve has been fully capable of bringing pressure on the money market when it deemed that course to be good economic policy.

3) Would government regulation of installment borrowing enhance the welfare of consumers themselves by curbing their propensity to buy on time? No, the authors say again. "First, we believe in the sovereignty of consumers; it is for them to decide the best way to allocate their resources. Second, the variable reasons for defaults and the remarkable similarity in the characteristics of good and delinquent loans make us doubt the feasibility of government regulation."

4) Do the lessons from our past experience of controls on consumer credit suggest a need for their continuation? No. "Selective direct control of installment credit poses many difficult problems of administration and equity."

5) What are the prospects for the further growth of installment credit? "Our analysis indicates that the underlying growth factors will continue to operate in the future. Three projections were made to illustrate the possible course of installment credit during the 1960's. These projections suggest that installment credit will continue to grow, but at a lower rate than in the past . . . We do not believe, therefore, that a strong case exists for direct peacetime regulation of installment credit."