Volume Title: Consumer Instalment Credit and Economic Fluctuations

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Volume Publisher: NBER

Volume ISBN: 0-870-14125-2

Volume URL: http://www.nber.org/books/habe42-1

Publication Date: 1942

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Chapter URL: http://www.nber.org/chapters/c7592

Chapter pages in book: (p. 158 - 176)

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## The Problem of Control of Instalment Credit

THE analysis in the preceding chapters has shown that in the past consumer instalment credit has operated to accentuate economic fluctuations. It tends to reinforce expansionary processes, whether they constitute the upswing of a normal business cycle or are due to a special inflationary stimulus like the present war boom; similarly it tends to intensify depressions of cyclical or other nature. The foregoing discussion has shown too that this behavior has been due not to an ephemeral constellation of circumstances, but to facts that are deeply rooted in traits of human behavior and in the basic structure and practices of our credit institutions, facts that cannot be assumed to change readily. Hence there is every reason to believe that also in the future instalment credit will tend to reinforce fluctuations in business activity, unless effective measures are taken to control its movements.

### NATURE OF THE PROBLEM

The cyclical pattern is not a special attribute of consumer instalment credit. All types of credit display essentially the same cyclical behavior. Hence such behavior should not be taken as a sufficient basis for a condemnation of the institution of instalment credit. So long as this type of credit exhibits an upward movement it raises the level of consumer expenditure, and thus exerts a stimulating influence which is quite welcome if it occurs during an acute cyclical depression or a stagnation period with much unemployment and other underutilized resources. The same is true even after the upward movement of outstanding credit has come to an end, provided it can be assumed that the operation of instalment credit tends, over the cycle as a whole, to reduce the propensity to save. As we have seen, there are reasons to believe that this is the case to some extent.

Moreover, in judging the institution of instalment credit it must not be overlooked that it performs important social functions. By introducing an element of flexibility and adjustability into the budget of lower-income families it helps to overcome temporary emergencies; and given the fact that many persons lack the will power to save first and buy for cash afterward, it permits a change in consumer demand in favor of high-priced durable goods which, on the whole, may perhaps be characterized as desirable. On the other hand, the high cost of instalment credit, especially when extended in small amounts, must be regarded as socially disadvantageous; and it cannot be overlooked that instalment selling probably induces many persons to make purchases of expensive things which they later regret having bought.

But whatever the final verdict in all these respects may be, it can hardly be denied that, assuming no change in the long-run volume of credit or in its long-run trend (if there is any), economic stability would be promoted if cyclical fluctuations in instalment credit outstandings were less violent or, still better, if they were anticyclical instead of cyclical. Thus the question arises whether it is not possible to devise measures of control calculated to bring about such a reduction or reversal in the cyclical fluctuations of credit.

Much has been written on possible control measures and, as can be seen from the descriptive monographs in this series, some branches of instalment credit have been subjected to extensive legislative and administrative restrictions and controls, varying considerably among the different states of the Union. But the problem of control was not discussed systematically from the point of view of reducing economic fluctuations before the appearance of Rolf Nugent's important book.[1]

It is not particularly difficult to think of measures that would prevent or retard the development of instalment credit, and thus it should be easy to bring about an institutional contraction. Moreover, by relaxing or removing such restrictive measures an institutional expansion could be brought about; positive measures of stimulation could even be adopted, although, as in other types of credit, control measures are more effective and reliable in restricting than in expanding. Thus, within certain limits in the upward direction, the long-run volume of credit can be effectively brought under control.

The regulative measures that have actually been applied are described in the various institutional monographs of this series. They consist mainly of provisions concerning licensing and regulations about maximum charges, maximum amounts of individual loans and other lending practices. Their purpose has been to protect debtor and creditor from abuses and to prevent unwise borrowing; they have not been designed to promote economic stability. For the most part, however, they are capable of influencing the volume of credit, mainly in its long-run movement but conceivably also in its short-run fluctuations.

It might be thought that the restrictive measures by which the legislator seeks to protect the borrower have tended to reduce the volume of credit in the long run, because these measures forbid many contracts that otherwise would have been made. Many experts believe, however, that policies of regulation, standardization and control which appear *prima facie* to be restrictive have actually brought about an increase in the volume of credit in the long run, because

[1] *Consumer Credit and Economic Stability* (New York 1939). J. E. Meade's *Consumers' Credit and Unemployment* (Oxford 1938) is no exception, because it really deals with another subject. Meade means by consumer credit government subsidies to consumers rather than credit extended by private institutions on a commercial basis. He proposes to put money into the hands of the consumers during depression periods, and to withdraw it in boom times, so as to counteract cyclical fluctuations.

they have prevented abuses and forestalled unfavorable reactions that otherwise would have occurred.[2] Undoubtedly there are control measures that have decreased the volume of credit (for example, too low minimum rates of charge for small loans in some states), and it would be easy to restrict volume effectively, but there are no grounds for believing that the regulative measures that have been adopted have systematically either intensified or damped the amplitude of cyclical fluctuations in credit.

We shall now discuss possible methods of credit expansion or contraction in the interest of economic stability, and shall then consider the probable effectiveness of such policies in various circumstances.

## METHODS OF CREDIT CONTROL

We may distinguish between measures influencing the supply of credit and those affecting the demand for it. As in other credit fields, supply is more amenable to influence than demand. Two different problems of supply should be distinguished: first, the supply of funds to the institutions of instalment credit; and second, the supply of funds to the final consumer-borrower.

It was pointed out in Chapter 2 that instalment credit institutions have gained easy access to the money market at large, in periods of prosperity as well as in periods of depression. Accordingly, the general policy of the monetary authorities with respect to the short-term credit market, designed either to expand or to contract the supply of loanable funds, to reduce or to raise interest rates, will affect instalment credit institutions in the same way as it does the market at large, that is to say, the rate that these agencies have to pay for borrowed funds will vary with the market rates. But interest cost on borrowed funds is a small and unim-

[2] It must not be forgotten that consumer credit is not a perfectly competitive industry. And under monopolistic conditions even the fixing of a price below the uninfluenced level may easily result in an expansion of the volume of business.

portant element in the total costs of instalment credit institutions, and a still smaller proportion of the total finance charge to the consumer-borrower.[3] It is safe to say that changes in the lending institutions' interest cost for borrowed funds are a negligible factor in the determination of the volume of instalment credit, irrespective of whether or not such changes are completely passed on to the consumer by raising or lowering the finance charge; and they would still be a negligible factor even if they were of a much greater order of magnitude than those that usually occur during trade cycles. It follows that a raising or lowering of the short-term or long-term rate of interest, which is the classical method of central banking policy, is of no avail for controlling the volume of instalment credit.

It is true that a rise in the volume of instalment credit could be checked or a contraction brought about by more drastic "qualitative," "selective" or "discriminatory" methods of credit policy. The banking system could conceivably charge high and discriminatory rates or could introduce credit rationing, that is, set a limit on funds for instalment credit institutions by fixing quotas (maximum credit lines) for individual agencies. But such a policy would be difficult to carry out. The great number of banks and of consumer credit institutions, the variety of sources from which the latter can draw funds, the great differences as to the availability of these sources to the different institutions, would make it very hard to execute a policy of credit rationing in an equitable manner.

It seems to be more feasible to control the flow of instalment credit at the terminal faucet where funds enter the household of the final consumer. This is the method chosen by the policy of restriction inaugurated by the Executive

[3] In Chapter 4 it was argued that changes of a few percent in the interest equivalent of the total finance charge paid by the consumer may be regarded as an unimportant factor as compared with changes in contract length and down payment percentage. This is still more true of changes in the small fraction of the finance charge (interest to the credit institution) with which we are concerned at present.

Order concerning consumer credit, issued by President Roosevelt on August 9, 1941, and administered by the Board of Governors of the Federal Reserve System. Under this policy it is not through regulation of the finance charge that credit is controlled,[4] but through regulation of down payment percentages and contract lengths. It may be remarked at once that these control measures, although introduced for coping with the present emergency, can also be utilized for purposes of controlling peacetime cyclical fluctuations in credit.

The first regulation issued by the Board pursuant to the Executive Order is known as Regulation W, and was adopted August 21, 1941. Regulation W, amended as of April 1, 1942,[5] prescribes a minimum down payment as follows: 33⅓ percent of the cash purchase price in sales of automobiles and motorcycles (this may include the value of a trade-in); 33⅓ percent of the "basis price" (cash purchase price minus trade-in allowance) in sales of new or used aircraft, motor boats, outboard motors, bicycles, radios, metallic musical instruments, cameras and various household appliances; 10 or 20 percent of the basis price in sales of stoves and heating units, clocks, pumps, plumbing fixtures, furniture and floor coverings. For most of these commodities a maximum maturity of 15 months is stipulated.

The same rules apply, in the amended regulation, to instalment cash loans of $1500 or less, if they are used for the purchase of any of the listed articles, whether or not they are secured by the article purchased; and the maturity of

[4] A contraction of credit might be brought about by enforcing a low as well as a very high rate of finance charge: a sufficiently low rate would discourage supply because of the high operating cost of consumer lending, and a sufficiently high rate would choke off demand. But any policy of regulating credit through a control of finance charges would be extremely complex and difficult, because of the great variety of rate quotations and the wide range of actual rate levels for different types of credit, due to profound differences in operating conditions. The history of credit control offers many examples of maximum rate regulations, but none of minimum rates. In consumer instalment financing the existent maximum legal rates have been imposed not for the purpose of regulating credit volume in the interest of economic stability, but in order to protect the borrower from exploitation.

[5] The full texts of the Executive Order and Regulation W, amended as of April 1, 1942, are presented in Appendix C.

15 months applies to cash loans of this size which are used for miscellaneous purposes. Instalment "modernization loans" (credit extended for materials and services to be used in connection with repairs, alterations or improvements of urban or rural real property) are subject to an 18-month maturity restriction if the deferred balance does not exceed $1000. Special repayment conditions are allowed on credit extended to farmers or others whose income is seasonal, and in arrangements intended to encourage off-seasonal purchases of seasonal goods. Compliance with the regulations is enforced by subjecting contraventions to severe penalties.[6]

As is usually the case with credit control, it is easier to check an expansion and force a contraction than to arrest a contraction and induce an expansion. The two cases are not strictly symmetrical. If it should become desirable to expand credit again, the first thing to do would be, of course, to remove the regulations on down payment percentage and contract length. But a maximum down payment percentage and a minimum maturity cannot be enforced as effectively as a minimum down payment and a maximum maturity. It is true that the writing of contracts with a higher than maximum down payment percentage and shorter than minimum maturity could be effectively prevented by declaring them unenforceable. But the debtor could not well be denied the right to repay his debt more quickly than stipulated in the contract,[7] and the right to grant or to refuse a loan cannot

[6] The Executive Order declares contracts that violate any provision of the regulation to be unenforceable, except in regard to provisions "designated . . . as being for administrative purposes" (section 2,d). This provision would probably be more effective than the imposition of penalties. Regulation W declares, however, that "pending an opportunity for the Board to observe this regulation in operation . . . all of the provisions of this regulation are designated . . . as being for administrative purposes . . ." (section 7).

[7] Consumers do not generally seek to make the cash down payment as small as possible and to repay their debt as slowly as possible. In many cases they try to keep their debts as low, and to repay them as quickly, as they conveniently can. Hence we cannot be sure that all buyers would accept easy terms with respect to down payment and maturity if they were offered. In this respect the situation is different from that of price and price control, of which the interest cost of a loan and its regulation are a special case: other things being equal, the consumer will accept the lowest price offer.

be denied to the lender; he cannot well be forced to lend at standard terms to everybody, as a retailer can be forced to sell to everybody who is willing to pay the price. Hence the volume of credit cannot be forced *up* against the wishes of the parties concerned by enforcing liberal terms, while it can be forced *down* by enforcing severe terms.

If lenders are reluctant to expand credit to meet the full demand for it, resort may be had to other stimulating measures, such as credit insurance by government agencies along the lines followed by the Federal Housing Administration, or outright competitive financing operations, intended to force down terms and charges, by government agencies such as the Electric Home and Farm Authority.[8]

## PURPOSE AND EFFECTIVENESS OF CONTROL

In considering the objectives and effectiveness of instalment credit control it is well to distinguish between, on the one hand, the ups and downs of ordinary peacetime business cycles, and, on the other hand, periods of booms or inflations fed by government spending for defense or war purposes, and the violent reaction thereto in a postwar slump. It may be argued that the difference between these two types of conditions is essentially one of degree. But it is at any rate sufficiently great a difference to warrant separate consideration.

Let us first discuss the second problem, exemplified by the present situation. In spite of the fact that the stakes and dangers are much greater than in the other case, it is in many respects the simpler and more clear-cut problem of the two.

In the present situation, which imperatively demands a decrease of that section of civilian consumption which com-

[8] The operations of these agencies have been described, and the value and effect of their activities appraised, in National Bureau of Economic Research (Financial Research Program), *Government Agencies of Consumer Instalment Credit,* by Joseph D. Coppock (1940).

petes with defense requirements, a policy of enforced contraction of instalment credit offers distinct advantages.[9] Such a policy may be said to have three objectives.

The first objective is a conservation of materials, equipment, skilled labor and managerial ability that are needed for the defense effort. This necessitates a retrenchment of civilian demand especially for durable goods, such as automobiles, refrigerators, washing machines, other electric appliances—precisely the commodities that are bought on instalment credit. Hence a contraction of the volume of new credits, if effective, would make itself felt at the exact point where it is needed.

A second objective of a contraction policy at present is to check inflation by restraining the rise in consumer purchasing power and demand in general. Such a restraining influence would be provided by a reduction in outstanding instalment credit. It should be noted that outstandings will be influenced in the downward direction not only if the volume of new credits is reduced but also, independently of any influence on new credits, if the credit period is shortened and consumers are forced to repay their instalment debts more rapidly.

The third objective to be achieved by a contraction of instalment credit in the present emergency is a deferment of consumer demand to the postwar period. After the end of the war, when armament production is rapidly curtailed, a quick revival of consumer demand for durable goods will facilitate the necessary readjustment of manufacturing industry. This revival of consumer demand will be aided by the use of instalment credit and by the relaxation of the restrictions that are imposed now.

In the present situation the most important of these three aspects is obviously the second one mentioned, the check on

[9] The exact timing of such a policy may be open to doubt. But at this writing (Autumn 1941) it is fairly generally agreed that the time has come for strong anti-inflationary steps.

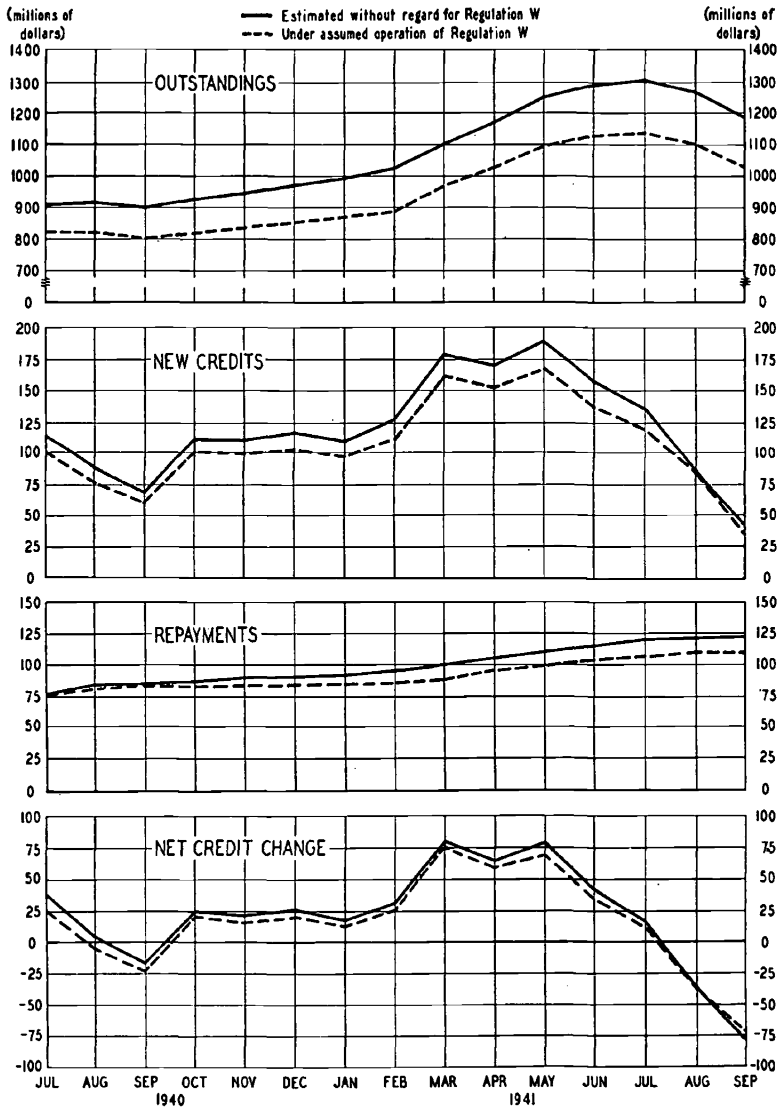
inflation. In view of the fact that as a result of defense expenditure incomes are rapidly rising, and that rising prices and growing scarcities are generally and increasingly anticipated by the public, a tightening of credit terms, even a more drastic one than that decreed so far (which, by the way, is quite severe as compared with prevailing standards), will hardly bring about a sufficient check on civilian demand. The necessary curtailment of durable consumer goods production must therefore be effected by the scarcity and rationing of raw materials, and by the direct imposition of production quotas. This curtailment of output will automatically bring about a contraction of new instalment credits and outstandings, and will create a backlog and a deferment of consumer demand. Therefore, with respect to the first and third objectives listed above, a forced contraction of instalment credit cannot do more than is achieved by direct measures.

But the tightening of terms will have a certain anti-inflationary effect, even if it cannot depress total sales or credit sales below the level determined by scarcities and rationing, and possibly by rising prices. Not only will repayments be increased, and thereby outstandings reduced, when consumers are forced by shorter maturities to repay their debts more quickly than they would otherwise, but the increased down payment percentage will result in a decrease in new credits even if the number of articles sold on credit remains unchanged.

To give an idea of the possible effect of the present regulations in one important field of instalment financing, we compare in Chart XIV the actual movement of new-automobile outstandings, new credits, repayments and net credit change, from July 1940 through September 1941, with what these four magnitudes would have been if all cars had been financed according to the new regulations during this period and the preceding 18 months. The difference between the two curves represents the effect that this earlier imposition

CHART XIV

ESTIMATED SERIES ON INSTALMENT FINANCING OF NEW PASSENGER AUTOMOBILES, 1940–41, AND CORRESPONDING SERIES UNDER THE ASSUMED OPERATION OF REGULATION W[a]




[a] Footnote on next page.

of the new minimum terms would have had.[10] The net anti-inflationary effect is best indicated by the difference between the two curves of net credit change, for this difference shows how much the purchasing power of the credit users would have been curtailed.[11] While such a curtailment of consumer purchasing power and expenditure will, in principle, be a welcome supplement to the effects of other anti-inflationary measures it will hardly be a factor of importance unless terms are tightened much more severely.

We may turn now to the problems of instalment credit control as a means of mitigating the ups and downs of ordinary peacetime business cycles. The methods of control will be the same as in the problem just discussed; the machinery set up and the experience gained in the present emergency will be applicable also for peacetime purposes.

An intense cyclical boom that leads the economic system up to full employment and threatens to bring about price inflation would in many respects be similar to the present war boom. During such an upswing the anti-inflationary, damping effect of a contraction of instalment credit would be

[10] The hypothetical curves were derived on the assumption, first, that the number of car sales financed would have remained unchanged, and second, that all credits would have been extended according to the new regulations. Both assumptions entail a certain understatement of the effect that the earlier introduction of the stiffer terms would have had: the number of cars sold on credit would have been reduced (although probably not much); and the actual above-standard contracts (more than 33 1/3 percent down payment and less than 18 months maturity) would presumably have been unaffected. (This maturity regulation was subsequently amended; see p. 163 above.)

[11] It is likely that this effect will be quantitatively less in the future, because the volume of credit will shrink when the production and sales of durable goods are reduced by direct curbs on output.

FOOTNOTE TO CHART XIV—Based on National Bureau estimates, derived from data in publications and releases of the U. S. Department of Commerce (Bureau of the Census and Bureau of Foreign and Domestic Commerce) and from information supplied by the Automobile Manufacturers Association and by a large automobile finance company. In deriving the hypothetical series it was assumed that from February 1939 (18 months—the stipulated contract maturity—before the beginning of the present series) all cars were financed in accordance with Regulation W (amended as of December 1, 1941), issued by the Board of Governors of the Federal Reserve System. No adjustment has been made for seasonal variations. (In 1942 maturity was changed to 15 months.)

very welcome. And, similarly, during the downswing of the cycle a relaxation of the restrictions imposed in the boom would tend to stimulate consumer expenditure and to relieve the depression in economic activity.

Since the last war, however, that is, during the period in which consumer instalment credit has become an important factor, business cycles have not been of that type. At least during the decade after 1929, upswings were not carried close to full employment, and at no time was there a danger of a general price rise resulting from rising demand pressing against inexpansible supply. With respect to the prosperity period culminating in 1929 expert opinion is sharply divided on the question whether it would have been wise to force a contraction of instalment credit. Some economists argue that a restrictive policy in the field of instalment credit (and elsewhere) would have made the following depression milder, although it might have precipitated it earlier. Many others, probably the majority of experts, are inclined to believe that such a policy would have needlessly interrupted the upswing without making the coming reaction milder.[12]

With respect to the upswing that reached its highest point in 1937 the division of opinion is less pronounced. In 1937 the economy was undoubtedly much farther away from full employment than in 1929; therefore the case for a restrictive credit policy during the course of the 1934-37 upswing is much weaker, and fewer economists would have recommended it at that time or would now, in the light of subsequent developments, regard it as having been wise.

On the other hand, there is fairly general agreement that in a depression, when consumer demand and output shrink and prices sag, an expansive policy in the field of instalment credit is desirable. The trouble is that there is not much scope for a liberalization of terms in a depression if they have not been tightened during the preceding upswing.

[12] These two schools of thought were discussed in Chapter 5, and some references to the literature were made.

Economic developments during the period in question (1930-40) have brought home to economists the essential limitations of credit control, whether it be control of credit in general or of instalment credit in particular. Credit control operates as a brake rather than an accelerator. You can always stop an acceleration by putting on the brakes, but a deceleration can be counteracted by means of the brakes only if they have been applied before and can now be released. Moreover, even releasing the brakes will not help very much if the speed has been greatly reduced, unless the road goes down hill, which is scarcely the case in severe depressions; thus the response of demand to a removal of supply restrictions may be quite sluggish in a depression. It may be repeated that the present situation, dominated by the war effort, offers a splendid opportunity to put on the brakes.

We have seen in earlier chapters that there is not much evidence for the view that a tightening of the supply of credit has been a very important factor in bringing about such contractions as occurred during the period under consideration. A decrease in demand seems to have been the chief responsible factor.[13] But there may have been some tightening of supply, brought about by a more rigorous examination of applications rather than by a visible hardening of credit terms. To the extent that this could be prevented from occurring in depressions the situation would be relieved.

But even the complete elimination of cyclical fluctuations in supply would in no way be sufficient to iron out cyclical fluctuations in new credits and outstandings. If demand fluctuates much with the cycle—as it clearly does—there would be cycles in credit even if supply conditions were perfectly stable. Thus the question arises whether it would be possible not merely to stabilize supply conditions but to make them move against the cycle, that is, make supply

[13] This conclusion is in accord with the recent trend of thought in credit theory in general, in which more and more stress is being laid on demand as against supply factors, and their fluctuations.

conditions more liberal in depressions, when demand falls off, and tighten them when demand expands, in such a way as to counteract the fluctuations emanating from the demand side. It goes without saying that by "supply conditions" is meant not only the finance charge but also the down payment percentage and, even more, the length of contract.

Supposing it were feasible to liberalize terms markedly in depression years—how effective would such a policy be in preventing cyclical drops in the volume of credit? It was pointed out in Chapter 4 that the short-run elasticity of demand is probably not great with respect to changes in the annual percentage rate of charge. On the other hand, it is likely that with respect to down payment percentage and contract length the situation is different. By lengthening the debt period and reducing the down payment percentage, potential demand in lower-income levels may conceivably be tapped for the consumption of durable goods.

Two effects must be distinguished: first, the effect on the volume of credit sales, and hence on the flow of new credits and the amount of outstandings;[14] second, what might be called the direct effect on outstandings, regardless of whether there is a change in credit sales or in new credits. Even if a liberalization of lending, with respect to down payment percentage and contract length, did not induce an expansion of sales, there would still result an expansion in outstanding credit. This effect would be reinforced if it were possible to refinance and rewrite many existing contracts on the basis of longer maturities, thus, as it were, lengthening the credit period retroactively, applying the longer maturities to outstanding contracts too instead of only to new ones.

It is unfortunately impossible to tell in advance how effective a given policy of cyclical change in credit terms would be in influencing the volume of sales and new credits, for we know very little about the short-run elasticity of demand

[14] A change in the down payment percentage may change new credits without changing sales.

for durable consumer goods with respect to terms of credit.[15] But whether substantial or negligible, the influence would certainly be in the right direction, and hence such a policy would be worth a trial. It may be worth adding that the persuasive power of an easing of terms will be greater if it is generally known that the liberal terms will last only temporarily. Hence the liberalization would be more effective if the cyclical nature of credit policy were announced in advance.

It is possible to say more about the direct effect on outstandings, mentioned above. Even if credit sales were quite unresponsive to changes in credit terms, outstandings would be influenced, if on the unchanged volume of sales the down payment percentage were reduced and the credit period lengthened. To be sure, it cannot be assumed that all buyers would accept the easier terms. Some of them might think it a postulate of sound finance to keep their debt as low as possible in bad times, and might refuse to take advantage of lower down payment percentages; and for similar reasons some debtors might not be inclined to accept a lengthening of the loan period on outstanding debts. But it seems plausible that there would be a large proportion who would be willing to take advantage of an opportunity to spread out the period of repayment. Psychologically the offer of a longer credit period could be made much more tempting if it were accompanied by a reduction of the interest equivalent of the

[15] This will be found less surprising if it is remembered that the situation is not much better in the far more discussed problem of the elasticity of demand for durable goods with respect to the price of these goods. It is still a moot question whether a more flexible price policy, especially price reductions in depression years, would tend to stabilize the production and sale of automobiles. See, for example, *The Dynamics of Automobile Demand* (published by General Motors Corporation, 1939), especially the contribution by C. F. Roos and V. v. Szeliski and the summary by S. M. DuBrul. See also the controversy to which this study has given rise: W. I. King, "Can Production of Automobiles be Stabilized by Making their Prices Flexible?," followed by an answer from C. F. Roos and V. v. Szeliski, a rejoinder and a second reply (*Journal of the American Statistical Association,* vol. 34, December 1939).

finance charge, so that the sum total of the instalment amounts would not rise, or would rise only a little.[16]

What could be achieved by such a policy can be judged from a rough calculation of the way in which automobile credit outstandings would have been affected by a hypothetical policy of maturity changes in 1929 and later. It is assumed that sales would not have changed at all from the actually reported level. The outstanding amount of automobile paper reached a high of 1,456 million dollars in August 1929 and fell 80 percent to a low of 293 million in March 1933. During this period the average maturity of such paper was about 13 months. Suppose finance companies had started to increase their maturities late in 1929, and by the end of 1930 had succeeded in raising the average contract length to 24 months. (This is a rather extreme assumption, and it is probably too optimistic to assume that such a drastic lengthening in the average maturity could be achieved.) The trough would then have been reached a few months later than it was, and would have been only about 50 percent lower than the 1929 peak instead of 80 percent, about 733 million dollars instead of 293 million. The finance companies could have started to shorten maturities later in 1933, and by the middle of 1934 they might have been back at a 13-month basis. By the middle of 1935 outstandings would then have returned to the actually reported figure.

This policy would have effected a strengthening of consumer purchasing power over the depression years 1930-33 to the extent of about 440 million dollars (the amount by which outstandings would have been raised at the trough). It is true that, compared with total consumer expenditure, this is not a large sum if distributed over two or three years. Moreover, it constitutes a transfer from later years rather than a net addition.[17] It must not be forgotten, however,

[16] This seems plausible in spite of the statement, made above, that changes of a few percent in the rate of charge would be a factor of negligible importance in determining the volume of credit sales.

[17] If the drop from 1929 to 1933 would have been less, but the level in 1935 the same, the rise from 1933 to 1935 would have been less.

that the strengthening of consumer purchasing power and expenditure in the depression years would have had favorable indirect effects, that for the purposes of this calculation new credits were assumed to remain unchanged, and that only automobile credit was considered.

We have seen in Chapter 5 that consumer instalment credit is not a cyclical factor of the very first importance. Even if cyclical fluctuations in instalment credit were entirely eliminated, the business cycle would still exist. But the same could be said of many other factors and measures, if each were considered in isolation. There are no simple measures regulating mildly certain sections of economic activity that would altogether eliminate, or drastically mitigate, economic fluctuations. But concerted action in many fields at the same time will have a noticeable stabilizing effect, and in such a system of measures the cyclical control of consumer instalment credit should find an important place.