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The Post-War Growth of Instalment Credit in the United Kingdom

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The Post-War Growth Of Instalment Credit In The United Kingdom

Summary

Over the post-war period as a whole, hire-purchase credit has grown substantially, and the rate of increase accelerated markedly after 1953 with greater availabilities on the domestic market of motor cars, cycles, television and other household durable goods. Between 1948 and 1955, for example, the amounts of credit extended by ten of the largest finance companies increased three-fold. At the end of December 1955, the outstanding hire-purchase debt in the U.K. (financing consumer durable goods, commercial cars and trucks and certain industrial and agricultural equipment) was officially estimated to be "in excess of £450 million," with about 35 per cent of the credit provided by finance companies and about 65 per cent by retail shops and department stores. By June 1956, however, this total had declined by 12 per cent to about £397 million as a result of a number of measures designed to restrict the volume of credit in general and of hire-purchase credit in particular.

This post-war growth has occurred in the face of official attempts to restrain it. To cope with balance-of-payments difficulties in 1947, 1949, 1951-52 and 1955, the British authorities have used traditional monetary and fiscal restraints to reduce domestic demand pressures and to correct the foreign trade position. In addition, they used selective controls over hire-purchase credit terms and specific sales taxes in 1952 and again in 1955 to cut back domestic purchases of durable goods in order to reduce excessive demands upon Britain's engineering capacity.

In their attempts to check the growth of instalment credit, the British authorities have limited the volume of funds accruing to finance houses and retailers by means of: (a) repeated requests to the banks to restrain or cut back their loans for hire-finance purposes; and (b) controls over capital issues exceeding £50,000 a year. These measures seem to have reduced the rate of growth of the established finance companies whose general instalment-credit business includes consumer, industrial, and agricultural financing; but there grew up a very large number of new finance companies with capital below £50,000 per year which have specialized in consumer finance. These firms, exceeding 270 in number, have recently been able to maintain a substantial rate of growth by obtaining funds from the public in the form of deposits at quite high rates of interest. To check this expansion, the minimum new capital issue limit was reduced to only £10,000 per year in early 1956.

In addition, the authorities have attempted to keep demand in check by means of direct regulation of down payment and maturity terms and by higher sales taxes. First introduced in 1952, the

regulations were withdrawn in July 1954; but they were reinstated in February 1955, and the terms made more restrictive in July 1955, and again in February 1956. To reinforce the impact of these regulations, purchase taxes on most durable consumer goods were raised in 1951 and again in October 1955. These two types of measures, together with the general credit squeeze, contributed to the declines in hire-purchase credit which occurred in the first six months of 1956.

The post-war expansion in instalment credit, and in particular the recent growth of consumer goods credit provided by small finance companies and retailers, reflects a transformation in the status of such credit in the U.K. Between 1920 and 1939, the growth in such credit was in large measure associated with automobile financing. Aside from automobiles, which were purchased principally by higher income groups, hire purchase was a means by which lower income families bought "necessities" such as furniture. There was a distinct stigma attached to use of hire purchase in this period.

Several factors have contributed to the transformed status of hire-purchase trading in Britain after 1945. Working and clerical groups, with improved income status and job security under post-war employment conditions, turned to hire purchase to obtain a variety of goods they had previously not consumed. In addition, the middle classes have turned to it to buy durable goods as a consequence of war-time capital losses and of progressive taxation which has reduced their capacity to save rapidly in advance of purchasing a durable item. Furthermore, the reforms of the Hire-Purchase Act of 1938 contributed to the post-war growth in this credit by eliminating a number of the worst abuses of hire-purchase trading. The result of these changes has been to make instalment purchasing a widely accepted form of financing.

According to available information, the common users of hire purchase in Britain are not the low income groups but industrial and white-collar workers with above-median incomes. About one out of three units in this range of income reported hire-purchase debt, compared with a two out of three ratio for the United States for units in comparable (exceeding the median) income categories. However, in Britain income groups below and above this range of incomes make much less use of hire purchase than do comparable income groups in the United States; apparently in Britain the use of instalment debt has not yet spread to lower income and to managerial, professional, and related occupations on a scale comparable with its use by above-average industrial and clerical wage-earners.

Legal aspects of instalment credit

The hire-purchase contract, the legal form most widely used in instalment credit in the United Kingdom, developed out of attempts by traders to protect themselves against the resale of the goods. Mercantile legislation, passed in 1889, provided that a person could resell goods with a clear title if he had agreed to buy the goods and had possession of the goods. Under this law, a person who bought goods on hire and possessed them with the consent of the seller "was capable of selling them so as to give a good title and so destroy the main security of the owner."1/

Traders soon discovered they could circumvent this difficulty merely by not passing title to their customer in the first place. The essential feature of the hire-purchase contract is that the seller hires the goods to the customer for a fixed term and transfers the possession to him but does not bind him to buy the goods at the end of the rental period. Since the customer has only an option to purchase, he is not considered "a person who has agreed to buy goods and so could not pass a title." Apparently by 1895 the House of Lords had held that a contract in this form "was an answer to a claim by an innocent buyer to a title under s.9 of the Factors Act, 1889."

Until 1939, however, there was no legislative definition of the rights of customers buying goods under a hire-purchase contract. There were no limitations imposed by Parliament upon the conditions of such contracts; in fact, the only limit to the stringency of the terms and conditions imposed was the willingness of the buyer to accept them.2/ Under the common law agreement, for example, the hirer had no right or equity of any kind to the goods until the last rental instalment (and option money if stipulated) had been paid; the owner was absolutely free to take the goods as well as practically the whole purchase price if the customer failed punctually to make the very last instalment. It was often difficult for the customer to discover the actual cost of the credit; in addition, the right of the customer (inherent in any hire-purchase contract) to return the goods and terminate the contract "was often so hedged about with onerous conditions as to be almost worthless."3/

Parliament took steps to correct this inequality of rights with the passage of the Hire-Purchase Act of 1938. In particular, the legislation ensured: (a) that the buyer obtained a written contract which set forth clearly both the cash and the hire-purchase

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1/ Maurice Lyell, "The Law Relating to Hire Purchase," Institute of Bankers, Spring Lectures 1956, p. 19.

2/ Ibid., p. 28.

3/ Ibid., p. 29.

price of the goods; (b) that he obtained a substantial interest in the goods when one-third of the purchase price was paid so that the owner could reposses the goods when the buyer was in default only by bringing legal action to recover them; and (c) that he had rights to terminate the contract. However, the Act applied only to hire-purchase contracts within these limits: (a) for motor vehicles and railroad equipment, up to £50; (b) for livestock, up to £500; and (c) for all other goods, up to £100. The 1938 Act which attempted to eliminate the worst abuses of hire-purchase trading effected a basic change in the status of such trading; these reforms contributed in an important way to the post-war growth in this type of credit.

Minor amendments were made in the Hire-Purchase Act of 1954 when railroad equipment was eliminated and the maximum limits became £1000 for livestock and £300 for all other goods.

Early development of instalment credit in the United Kingdom

Use of instalment credit in Great Britain goes back several centuries, at least in the form of credit granted by itinerant peddlers. As early as the seventeenth century, for example, Scotch weavers sold suit "lengths" on credit from door to door to wage earners in the North of England.1/ Credit records ("minute books") of credit drapers' associations (selling general clothing and yard goods), which are more than 100 years old, are still in existence.2/ These traders used to go from house to house selling clothing and bedding; they continue to do so today. They require a 10-15 per cent down-payment for new customers, collect the money over 20 weekly instalments and make a 5 per cent charge for their services.

During the latter part of the 19th century, hire purchase was used in purchasing substantial household goods, such as pianos and other musical instruments, furniture and sewing machines as well as for agricultural and industrial machinery and technical equipment. In an 1897 play, for example, G. B. Shaw presented a fledgling dentist who outfitted his office through the hire-purchase system. 3/ Plummer reported that in 1898 the company selling the Encyclopedia Britannica had a remarkably successful campaign selling the work for one guinea (approximately $5.00) cash and thirteen monthly instalments of one guinea each.4/

1/ "Consumer Instalment Credit Abroad," Monthly Review, Federal Reserve Bank of New York, January 1956, p. 6.

2/ Leonard Berry, "Retail Credit in Britain," Business Credit, July 1956, p. 11.

3/ G. Bernard Shaw, You Never Can Tell, opening scene.

4/ W. C. Plummer, The Social and Economic Consequences of the Instalment Plan, supplement to The Annals of the American Academy of Political and Social Science, Vol. CXXIX, January 1927, p. 2.

With the growth of specialized facilities for financing consumer and certain types of capital goods, the use of instalment credit expanded rapidly in Britain between 1920 and 1929. The introduction into the United Kingdom of automobile finance organizations similar to those which had been developed in the United States was an important stimulant to this expansion. In addition, manufacturers and retailers gradually moved into hire-purchase business in order to increase turnover, even though they were reluctant in many cases to undertake the administrative effort involved in credit selling. Furthermore, competition gradually forced well-established shops and department stores to overcome their reluctance to provide such facilities.

Although no estimates of the total volume of credit in force are available, Crick has estimated that there were roughly 16 million hire-purchase contracts in force in the United Kingdom in 1928 and that about 4 million new contracts were entered into each year.1/ Plummer noted that by 1927 the hire-purchase plan was extensively used in the United Kingdom "in the sale of machinery, agricultural implements, automobiles, furniture and musical instruments."2/ Apparently independent of each other, Crick and Chisholm3/ estimate that the following proportions of durable goods sales were made under credit agreements:

	Per cent
Pianos and gramophones	80
Motor cars	50 to 60
Sewing machines	70
Furniture	50

Crick estimated that these contracts represented more than 75 per cent of total retail business on the instalment plan.4/ He added that the rapid growth of instalment sales "has been confined to the past few years" and that the popularization of the motor car was largely responsible for the rapid growth. However, hire purchase was the established method of selling in several other important fields. For example, Plummer noted that the use of the hire-purchase contract

1/ W. F. Crick, The Economics of Instalment Trading and Hire Purchase (London: 1929), p. 6.

2/ Plummer, op. cit., p. 5.

3/ C. Chisholm, The Manchester Guardian Commercial, September 16, 1926, quoted in Plummer, op. cit., p. 5.

4/ Crick, op. cit., p. 6.

in the marketing of pianos was "so common as to have become a 'custom' in the eyes of the law." He added: "The same custom is recognized by British law in regard to barges, gas and steam engines, printing machinery, railway cars, and sewing machines."1/

A U.S. Department of Commerce survey by William M. Park in 1928 estimated that at least 60 to 65 per cent of passenger cars in large British cities were sold on hire purchase.2/ Some car manufacturers and large dealers financed their own contracts, but in general such credit was provided by separate financing companies; there were about 6 important firms with headquarters in London. Park reported that usual terms were 25 per cent down with usual monthly payments of 12 to 18 months but that 24 month maturities were not uncommon. He noted that, although these terms "will appear unduly long to most American manufacturers, they are necessary in England to make the scheme effective."3/

A trend toward increasing liberalization of terms and, in particular, the growth of "no deposit" contracts in the late 1920's is reported by both Crick and Park. Although "no deposit" terms were opposed by trade organizations, Crick reported that it had "made such strides that it has become a strong rival to its older competitor."4/ Park reported two examples of time selling of cars with less than 25 per cent down-payments: (a) delivery of car on payment of the first of 12 equal monthly instalments, with 5 per cent being added to the price for the credit accomodation; or (b) if a 10-per cent cash payment is made, the balance (plus 7-1/2 per cent) to be paid in 18 equal monthly instalments.5/

During the 'twenties, hire-purchase funds were provided by the traders or by finance firms. Trader financing and collecting, either directly or through special subsidiaries, was apparently most general in furniture, clothing, jewelry and similar trade. Finance companies were important in financing automobiles and, to a lesser extent, other branches of business, such as pianos. A few of these finance companies were subsidiaries of the selling companies, especially in the automobile field; but most of the companies did a more general credit business. Both types of finance houses obtained funds from

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1/ Plummer, op. cit., p. 5.

2/ William M. Park, Automotive Industry and Trade of Great Britain and Ireland, U.S. Department of Commerce (G.P.O.: 1928), p. 20.

3/ Ibid., p. 22.

4/ Crick, op. cit., pp. 7-8.

5/ Park, op. cit., p. 22.

insurance companies and from banks as well; however, direct bank financing of instalment credit was relatively limited because, in Crick's view, bank cash was restricted by the British authorities during the period.1/

Crick attempted to obtain information on the cost of instalment credit by studying advertised terms. He found that rates of 5 to 6-1/2 per cent applied to furniture offered by department stores. The terms on pianos varied between 7 and 10 per cent. Gramophone advertisements ranged from 7 to 16 per cent. Contracts of finance companies seemed to cost from 9 to 11-1/2 per cent.

The default record on instalment credit contracts seems to have been favorable. Crick quoted one automobile firm with losses below 1 per cent; more specifically, he quoted the loss record of the largest British general finance company of 1/10 of 1 per cent in the past 10 years and approximately 1/20 of 1 per cent over the last few years.2/ Even during the worst of the depression from 1929 to 1933, the ultimate loss on hire-purchase loans has been estimated at only 1-1/2 per cent.3/

During the 1930's, the further growth in instalment credit was in part the result of encouragement by the British authorities to develop instalment credit facilities. In an attempt to provide additional-credit facilities, especially for small corporate needs, the Bank of England's assistance took the concrete form of purchasing in 1930 over £260,000 of shares in the principal hire-purchase firm.4/ Once the position of the hire-purchase finance houses in the London market had been strengthened, the Bank withdrew from active participation by selling its interest to stockholders in 1936 and 1937.

In 1931, the Macmillan Committee concluded that adequate hire-purchase facilities were available and were being developed but

> "not so much use is made of them as is possible and desirable. Recent experience appears to show that . . . the risk of loss in . . . such credits is small, while . . . their value in stimulating home consumption should be great. The use of electrical and mechanical appliances by the great

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1/ Crick, op. cit., p. 42.

2/ Ibid., pp. 121-2.

3/ "Banking and Hire Purchase," The Scottish Bankers' Magazine, January 1955, p. 207.

4/ T. Balogh, Studies in Financial Organization, (Cambridge: 1947), p. 159.

> bulk of the population is capable of very great extension and would, we believe, be greatly facilitated by the more widespread application of instalment buying, the advantages of which much outweigh in our view any disadvantages which are alleged against it. It is, of course, essential that British traders should be made fully aware of the facilities which exist and that they in turn should be prepared to make use of them."1/

Sources of instalment-credit funds

Hire-purchase financing by finance companies has come from four major sources: (a) new capital and current earnings; (b) bank loans; (c) bill financing in the money market; (d) deposits from the public. Retailers generally obtain their funds from the banks or from finance companies. The banks themselves do no direct consumer finance business, although one bank recently acquired a wholly-owned subsidiary operating in the financing of industrial plant and vehicles in Scotland.

Speaking generally, the authorities have attempted in the post-war period to restrain the flow of funds into hire-purchase finance through controls of capital issues and through restrictions on credits by the banks and accepting houses. These controls have reduced the new capital raised by established firms doing a general instalment-credit business and have encouraged the organization of small firms with limited capital which have specialized in consumer goods. Quite recently, borrowings directly from the public at high rates of interest have grown rapidly, particularly in the case of the small companies.

Raising new capital. -- Except for a brief period in 1954, new capital issues have been strictly controlled; as a result, the established firms had to rely to a substantial extent on current earnings to build up their capital and reserves. Between 1945 and the middle of 1954, the regulations of the Capital Issues Committee limited the raising of new capital by the hire-purchase firms in excess of £50,000 per year. In the original British Treasury Memorandum on Capital Issues Control in May 1945, issues for hire purchase were to be allowed only: (a) if these hire-purchase facilities promoted an authorized purpose and (b) if the application was not inconsistent with Board of Trade policy governing hire-purchase business.2/ These regulations, as amended and tightened during the economic

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1/ Report, Committee on Finance and Industry, Cmd. 3897 (H.M.S.O., London: 1931), para. 394.

2/ Capital Issues Control, Cmd. 6645, (H.M.S.O., London), May 1945, para. 11.

difficulties in 1947, 1949, and 1951, effectively prevented the larger companies from raising new capital; in 1954, for example, the head of a major firm stated his company had attempted to persuade the C.I.C. of the need for new capital for four years.1/ As a result, these firms had to depend on ploughing back profits to augment their capital position. An additional consequence of the regulations was the mushrooming of new companies, mostly in the field of financing consumers — perhaps in excess of 270 in number — with capital below the £50,000 annual minimum.

In August 1954, the Chancellor withdrew the ban on new capital issues; he directed the C.I.C. not to impose a rigid ban on the raising of new capital by hire-purchase companies. Taking advantage of this new freedom, "nearly all the finance companies that are quoted on the Stock Exchange went either to the market or to their own shareholders for extra capital" during the second half of 1954.2/ Between 1953 and 1954, the total capital of the 10 leading companies increased from £7.0 to £10.8 million.3/ It had been expected that the removal of restrictions would cause some of the smaller companies to feel the pinch of competition; instead, these small firms continued to grow amid the general hire-purchase expansion.

The ban on hire-purchase capital issues was reimposed in February 1955 along with other measures to restrict hire-purchase and other forms of credit. Finally, in March 1956, the Chancellor decided to curtail the formation of the small companies by reducing the limit of exemption from capital issues control from £50,000 to £10,000 a year.

Borrowing from banks — The established finance companies and retailers have been the principal channels through which bank funds have flowed into hire purchase. Statistics on bank loans to hire-purchase firms are separately available only from early 1954. These figures show a continuing expansion from £11 million in February 1954 to a peak of £45 million in August 1955 and a subsequent decline to £31 million by May 1956 (see Table 1).

Turning to retail traders, bank loans to retailers have grown rapidly since the end of the war from £62 million in early 1946 to a 1951 peak of about £210 million; after falling to a low of £171 million in early 1954, they rose to £204 million in May 1955. Since then, they have remained around £185 million (see Table 1).

1/ The Financial Times (London), August 21, 1954, p. 1.

2/ "Hire Purchase Gallops On," The Economist (London), February 5, 1955, p. 472.

3/ C. J. Shimmins," The Control of Consumer Credit," Lectures 1955-56, The Institute of Bankers in Scotland, p. 17.

Table 1

United Kingdom: Bank loans to retailers and to hire-purchase companies
(In millions of pounds)

		Hire-purchase companies	Retailers	Total loans	Loans to retailers as per cent of total loans
1946:	Feb.	n.a.	62.2	848.3	7.3
	May	n.a.	67.7	865.6	7.8
1947:	May	n.a.	98.3	1,094.1	9.0
1948:	May	n.a.	141.4	1,351.0	10.5
1949:	May	n.a.	158.1	1,489.8	10.6
1950:	May	n.a.	188.8	1,715.1	11.0
1951:	May	n.a.	210.1	1,894.9	11.1
1952:	May	n.a.	202.5	2,003.8	10.1
1953:	May	n.a.	177.3	1,865.1	9.5
1954:	Feb.	11.2	170.7	1,845.4	9.3
	May	n.a.	181.0	1,893.8	9.6
	Aug.	n.a.	168.2	1,934.2	8.7
	Nov.	19.7	187.7	1,957.0	9.6
1955:	Feb.	30.5	195.5	2,095.0	9.3
	May	42.0	203.8	2,189.9	9.3
	Aug.	45.1	188.5	2,215.2	8.5
	Nov.	36.9	183.1	1,980.7	9.2
1956:	Feb.	35.4	185.7	1,961.1	9.5
	May	30.6	183.7	1,985.1	9.3

Source: Monthly Digest of Statistics, Central Statistical Office.

This flow has been restricted in two principal ways. In the first place, the monetary authorities on several occasions have made direct requests to the banks. In 1947, the banks were asked not to increase their advances to hire-purchase firms beyond the then existing level and, shortly thereafter, they were asked to cut back these loans by 10 per cent. In April and December 1951 and in February 1955, requests to limit or to reduce these loans were repeated. In the second place, the general practice of the banks is to limit their loans to hire-purchase firms to a multiple of the capital and reserves of the company; in this way, restrictions on new capital issues have directly restrained loan expansion.

Short-term bills and debentures -- Some hire-purchase firms have credit lines with accepting houses and banks. They draw bills on the acceptors which are then discounted in the money market. For such borrowing, the original hire-purchase bill, signed by or on behalf of the consumer, is deposited as collateral for a new acceptance which is made out. This is an established source of credit; before World War II, perhaps £30 million of such bills were sold to the discount market; in addition, there was an unestimated volume of bankers' acceptance credits granted to the finance companies.1/ The willingness of bill brokers to endorse hire-purchase bills was helped by the existence of a Trade Indemnity Company with which they frequently reinsured themselves. This Company not only guaranteed to make good losses arising in connection with endorsements up to 75 per cent, even in cases of fraud, but also undertook prosecution.2/

No estimate of the post-war volume of borrowing against acceptances is available. However, in recent years hire-purchase bills have accounted at times for 10 per cent of the funds of the finance companies.3/ Such credit lines are presently subject to the same sort of restrictions as bank advances.

Relatively less common and probably less important in volume is the practice of some companies to raise funds against debentures; such borrowing limits other forms of borrowing.4/

Deposits -- Finance companies partially finance their needs by accepting deposits from insurance companies, corporations and the general public at attractive rates of interest. Formerly, the more important firms either refused or were reluctant to accept deposits from the public. However, the practice has recently spread rapidly as the firms have found it increasingly difficult to obtain additional resources from the commercial banks and from large lenders.5/ At present, only a few finance companies do not accept deposits.

1/ Balogh, op. cit., pp. 158-9.

2/ Ibid., p. 160. An account of insurance of instalment credit in Britain may be found in "Hire-Purchase Insurance," The Financial Times (London), August 8, 1956, p. 7.

3/ "Sources of Hire-Purchase Finance," The Financial Times (London), March 18, 1955, p. 6.

4/ D. Carmichael, "Sources of Technique of Hire-Purchase Finance," in Hire Purchase, Spring Lectures of the Institute of Bankers, London, March 1956, p. 51.

5/ "Deposits with Hire-Purchase Finance Houses," The Financial Times, (London, August 25, 1956, p. 4.

Both large and small companies set a minimum of £100 for each deposit, although some smaller firms accept funds in multiples of £25. These deposits are usually for a fixed period or fixed notice period. In general, the larger companies accept deposits with notice periods of one month, three months or six months. Some firms may permit withdrawals of a fixed sum -- say, £100 -- on demand or very short notice. The smaller companies seem to follow a different practice; they tend to set a limit to the amount which can be withdrawn in any period regardless of the credit balance.[1]

The rates payable on these deposits are nearly always directly tied to the Bank of England's discount rate; a rise in Bank rate usually means an automatic increase in interest paid. The margin between actual interest and Bank rate varies widely, being smallest with the larger nation-wide companies and highest for the smaller regional companies. The major concerns seldom pay more than 1-1/2 per cent above Bank rate, but many of the smaller companies may pay 2 per cent more, even for short-period deposits. In July 1956, with Bank rate at 5-1/2 per cent, the larger institutions were quoting 5-1/2 per cent for deposits for notice of one-month, 6 to 6-1/2 per cent for three-months and from 6 to 7 per cent for six-months.

Such borrowing has probably been the principal source of new funds for the finance companies within the past year or so. Because banks and acceptance houses usually limit their loans to finance firms to a multiple of four or five times the paid up capital and reserves, additional borrowings from the public would lead the bankers to "insist in such circumstances upon a reduction in their bank borrowings."[2] Accordingly, the newly-established firms, which have not established as close connections with the banks and accepting houses as is the case with the older companies, have somewhat greater incentives to expand their public borrowings. They have made widespread use of advertisements in leading financial newspapers to obtain deposits. In consequence, one firm increased its deposits during 1954 from £712,000 to £2.5 million.[3] The rapid growth of this practice, which has accompanied the mushrooming of companies within the £50,000 annual capital issues limitation, has caused some disquiet and controversy. For example, the Finance Houses Association, an organization of all but a few of the major institutions in the field, has urged the public not to respond to advertisements from hire-purchase firms

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1/ "Deposits with Hire-Purchase Finance Houses," The Financial Times (London), August 25, 1956, p. 4.

2/ J. S. G. Wilson, "Credit Rationing and the Relevant Rate of Interest," Economica, XXI, No. 81, February 1954, p. 27.

3/ "Sources of Hire-Purchase Finance," The Financial Times (London), March 18, 1955, p. 6.

inviting deposits at high rates of interest, without seeking professional advice.1/ An official of the leading member firm, in a speech before the Institute of Bankers, noted that the advertising firms "may or may not be supporting such deposits with adequate capital and reserves."2/

Ownership by a financial institution — In a precedent-breaking step, a Scottish commercial bank took over as a wholly-owned subsidiary a finance house specializing in hire purchase of industrial plant and vehicles. No other commercial bank has yet followed this course.

However, insurance companies and other financial institutions have participating capital in various finance companies as well as deposits. Some of these holdings are reported to be of considerable size. At one time, insurance companies were active in forming and managing finance companies, mostly in connection with automobile financing, as a means of getting the insurance business; but "the practice is not now so marked."3/

Volume of credit outstanding

The total hire-purchase debt outstanding at the end of December 1955 has been officially estimated to be "in excess of £450 million." Total debt owed to retailers was about £250 to £300 million and the debt held by 260 finance companies totalled £169 million, as may be seen in Table 2. This outstanding volume was equivalent to about 4 per cent of total consumer expenditures and to about one-quarter of expenditures on household goods and private motoring and cycling during the calendar year 1955.

New credits extended may be estimated at a rough average of about £29 million per quarter during the first two quarters of 1956 compared with an average of £39 million for the fourth quarter of 1955. These estimates are based on the results of a one-time survey for December 1955 which showed that new credits extended by retailers averaged about £5 million per week (or roughly about £20 million for the month) and those by finance companies to about £15 million during the month; these two figures are adjusted by the indexes of value of hire-purchase credit extended by retailers and finance companies which were later published by the the Board of Trade (see Table 5). For the month of December 1955, new credit extended was equal to about 8 per cent of outstanding balances.

1/ "Hire-Purchase Finance Houses," The Financial Times (London), March 28, 1955, p. 3.

2/ Carmichael, op. cit., p. 51.

3/ Carmichael, op. cit., p. 52.

Table 2

United Kingdom: Credit outstanding on hire-purchase agreements by retailers and finance companies and selected consumption aggregates
(In millions of pounds)

	1955
1. Outstanding hire-purchase credit:	
a. Retailers	250-300
b. Finance companies 1/	169
c. Total	in excess of 450
2. Total consumer expenditures:	12,677
Of which: a. Household goods 2/	994
b. Private motoring and cycling 3/	570
c. Total, household goods and motoring	1,564

1/ Represents returns from 260 finance companies. It is estimated that about £20 million pounds of this total is attributable to household goods.

2/ Includes durable and other household goods.

3/ Includes expenditures for gasoline and other operating expenses.

Sources: Hire-purchase credit estimates from an initial inquiry by the Board of Trade for December 1955 published in the Board of Trade Journal, April 21, 1956, pp. 424-6. Consumption expenditures for the entire year 1955 from Cmd. 9729, "Preliminary Estimates of National Income and Expenditure, 1950 to 1955."

Credit by retailers was divided about two-thirds for furniture and furnishings and about one-third for hardware, radios and electrical goods (see Table 3). Individual retail stores supplied £4.5 million and department stores only £0.5 million.

Finance companies extended £15 million credit during the month of December 1955 against hire-purchase contracts. Private and commercial motor vehicles and related products accounted for £10.8

million or 72 per cent of this total; farm and industrial goods for £1.5 million or 10 per cent; and other consumer goods for £2.7 million or 18 per cent (see Table 4). Within the category of automotive products, private cars represented 43 per cent of the total, with sales of used cars on credit slightly exceeding those of new cars; commercial vehicles of all types comprised 21 per cent, motor cycles 6 per cent and caravans (trailers) 2 per cent. Other consumer goods, totalling 18 per cent of the total, consisted chiefly of radio, television and musical instruments (8 per cent) furniture and furnishings (3 per cent) and domestic appliances (2 per cent of the total).

Table 3

United Kingdom: Estimated weekly average of new credit extended by retailers on hire-purchase agreements, December 1955
(In millions of pounds)

	Retail stores	Department stores	Total
Furniture and furnishings	3.00	0.35	3.35
Hardware, radios and electrical goods	1.50	0.15	1.65
Total	4.5	0.50	5.00

Source: Board of Trade Journal, April 21, 1956, pp. 425-6.

The commodity distribution of credit by finance companies, with the predominance of automobile financing, is not an accurate picture of the composition of outstanding hire-purchase credit. On the contrary, the volume of credit used in financing furniture may exceed automobile credit. According to one estimate,1/ the commodity distribution of hire-purchase credit outstanding in early 1955 seems to have been roughly as follows:

1/ John Marvin, "How Hire Purchase has Grown," The Banker (London), March 1955, p. 157.

Table 4

United Kingdom: Estimated new credit extended by finance companies on hire-purchase agreements by commodity group, December 1955

	Per cent	Average value for month (In millions of pounds)
1. Automotive equipment:		
Private cars, new	19	2.85
Private cars, used	24	3.6
Commercial vehicles, new and used	21	3.15
Motorcycles	6	0.9
Caravans	2	0.3
Total	72	10.8
2. Farm and industrial goods:		
Farm equipment and tractors	3	0.45
Industrial and building plant and equipment	7	1.05
Total	10	1.5
3. Other consumer goods:		
Furniture, Furnishings and floor coverings	3	0.45
Radio, television and musical instruments	8	1.2
Domestic appliances	2	0.3
Other goods	5	0.75
Total	18	2.7
4. Total, all goods	100	15.0

Source: Board of Trade Journal, April 21, 1956, pp. 424-6.

	(In millions of pounds)
Furniture and bedding	120 - 160
Cars, trucks, motorcycles and trailers	100 - 130
Radios, television, vacuum cleaners and refrigerators	75 - 95
Gas appliances 1/	35
Electrical appliances 1/	16
Department store sales	5 - 10
Bicycles	5 - 10
Total	356 - 456

1/ Sales by nationalized gas and electricity boards.

Recent trends in hire-purchase credit

Between October 1955 and May 1956, the volume of new credit extended in Britain declined sharply. Both retailers, which finance almost entirely durable household goods, and finance companies, whose business is dominated by financing automobile and truck sales, experienced declines. The declines seem to be due to: (a) increases in purchase taxes, announced on October 25, 1955 which were preceded by heavy anticipatory consumer buying; (b) the seasonal (post-Christmas) drop in retail trade; and (c) tightening of instalment-credit terms announced on February 17, 1956.

In the general declines in credit sales, retailers have been more seriously affected than finance companies. Among retailers, the October boom in sales mostly affected radio and television shops and department stores; sales of furniture apparently showed little change, perhaps because of the sharp falls recorded earlier in 1955.1/ Between October and December, retailers sales dropped by 19 per cent; after Christmas, however, they experienced a 30-per cent decline in sales, apparently seasonal in character, which affected all sectors of retail trade (see Table 5). The tightening of credit terms in February 1956 caused a further decline in sales of durable household goods but not in furniture, perhaps because the down-payment on furniture was only raised from 15 to 20 per cent compared with rises from 33-1/3 to 50 per cent for most household durables (see Table 2). Between January and May 1956, for example, sales by furniture shops were maintained1/ but those of hardware, radio and electrical shops and department stores had declined by 15 and 30 per cent respectively.

1/ When hire-purchase controls were introduced in February 1955, furniture was included for the first time; because of the very low deposits previously offered by chain furniture stores, the 15-per cent down-payment requirement produced a 50 per cent reduction in sales during the second and third quarters of 1955 compared with the same period in 1954. Returns from 419 furniture stores specializing in hire-purchase selling show sales in August 1955 at 48 per cent, July at 47 per cent and June at 44 per cent of the sales in the corresponding month in 1954. (The Financial Times (London), October 6, 1955, p. 1.)

Table 5

United Kingdom: Indexes of value of hire-purchase credit extended by retailers ~~and~~ finance companies

(December 1955 equals 100)

	Retailers				Finance companies					
						Private cars				
Month	Total	Furniture and furnishings shops	Hardware radio and electric shops	Dept. stores	Total, all goods	New	Used	Furniture, furnishings etc.	Radio, TV and musical instruments	Domestic appliances
1955:										
Oct.	119	104	135	134	125	111	135	114	123	164
Nov.	105	101	107	118	112	104	111	119	137	145
Dec.	100	100	100	100	100	100	100	100	100	100
1956:										
Jan.	69	70	62	68	114	117	118	95	99	111
Feb.	67	64	65	61	117	102	120	91	97	128
March	66	66	60	53	90	107	105	77	30	66
April	65	66	55	63	96	115	123	86	27	80
May	67	70	53	48	108	115	148	87	25	84
June	68	70	57	41						

Source: Board of Trade Journal (monthly). The data for retailers refer to the value of goods sold on hire purchase per week and those for finance houses cover credit extended directly to hirers per calendar month.

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Table 6

United Kingdom: Indexes of total outstanding hire-purchase credit
(December 1955 equals 100)

End of month	Debt owing to retailers (household goods shops)	Debt owing to finance companies	Total hire-purchase debt
1955:			
October	99	100	99
November	98	100	99
December	100	100	100
1956:			
January	96	101	98
February	93	102	97
March	89	100	93
April	87	99	92
May	85	98	90

Source: Board of Trade Journal, monthly

Table 7

United Kingdom: Per cent of sales on hire purchase

Month	Furniture and furnishing shops	Radio and electrical shops	Total, household goods shops
1955:			
October	43	37	35
November	46	35	35
December	46	33	33
1956:			
January	41	29	29
February	42	31	30
March	38	30	28
April	38	30	28
May	38	28	28

Source: *Board of Trade Journal*, monthly.

New credit extended by finance companies fell by 25 per cent between October and December 1955, reflecting particularly sharp falls in used car, radio and television, and domestic appliance paper (see Table 5). The sharp decline in new credit extended in March probably reflects the more stringent credit terms introduced the month before. During the second quarter, the seasonal expansion in automobile financing brought the index up for April and May despite falls in credit extended by the finance houses for radios, television and domestic appliances.

However, the decline in total credit outstanding was less than the fall in new extensions. Between the December 1955 peak and May 1956, the total volume of outstanding credit declined about 10 per cent (see Table 6). During this 7-month period, outstanding credit by retailers declined by 15 per cent while that of finance companies fell by only 2 per cent.

The proportion of credit sales to total retail sales has declined continuously since the fall of 1955. Furniture shops reported an average of 45 per cent credit sales in the last quarter of 1955 but only 38 per cent in the three months after February. Similarly, radio and electrical shops reported credit sales at 35 per cent for the last quarter of 1955 and about 30 per cent during the first half of 1956. Finally, the total for all household goods shops averaged 35 per cent for the last quarter of 1955 compared with 28 per cent of all retail sales from March to May 1956 (see Table 7).

Who uses hire purchase in the United Kingdom?

The post-war expansion in the use of hire-purchase credit has been largely the result of its growing use by working and lower salaried income groups. In 1928, for example, Crick suggested that

> "although . . . a considerable amount of instalment buying of lower-priced articles, particularly furniture, clothes, and the cheaper pianos and gramophones, must be undertaken by wage-earners, much the larger proportion, measured by aggregate values, is almost certainly concentrated on the receivers of relatively fixed incomes."1/

In the absence of statistical detail, he supports his conclusion by the statements that "a large proportion of the total instalment sales is in respect of cars, which are acquired by comparatively few wage-earners" and that hire-purchase sellers are disposed to sell more readily to a person in permanent employment "than to a wage-earner, whose position is not so secure."2/

1/ Crick, *op. cit.*, p. 103.

2/ *Ibid.*, p. 102.

Despite this fact, however, hire purchase was definitely looked down upon before World War II. Higher income groups used such credit chiefly to buy automobiles; they were able to save in advance to buy the other conveniences and semi-luxury goods they wanted. As a result, hire purchase was generally considered, in the words of the London Times, "a working class device . . . for obtaining, not luxuries or even semi-luxuries, but such necessaries as furniture."1/

The social and economic changes in the United Kingdom after World War II produced a profound change in the status of such credit. On the one hand, the working and clerical groups found their relative income status and their job security improved; under post-war employment conditions, they were prepared to sign a hire-purchase contract in order to obtain a variety of consumer goods which were either not previously available or at least not available to them. On the other, the middle income groups are now making greater use of instalment credit to obtain household necessities and conveniences. As a result of the widened use of credit to obtain modern conveniences, "the class tincture of being a hire purchaser has vanished altogether. To all social grades it seems a common sense way of 'saving' -- and of coming into an inheritance of contemporary boons the moment the deposit is made."2/

From two available statistical surveys,3/ it would appear that hire purchase is most widely used, in terms of income, among those around and above the average (median) reported income and, in terms of age, among the younger working population. Hire-purchase debt in the United Kingdom seems to be only about half as widely used as in the United States. In early 1953, about 2 income units out of 10 reported hire-purchase debt in Britain compared with about 4-1/2 income units out of 10 in the United States.

The most common use of instalment credit in Britain is found in the median and above-median income groups, not in the lower income categories, as may be seen in Table 8. The median income in Britain lies in the £400-499 class; about one out of three income

1/ "Credits For Everyman," The London Times (London), September 23, 1954, p. 7.

2/ The Financial Times (London), June 10, 1954, p. 1.

3/ The Oxford Institute of Statistics sponsored a savings inquiry for England which was quite similar to the consumer finance surveys of the Federal Reserve Board. The results are found in the Institute's Bulletin for May 1955. The results of a less comprehensive inquiry by an advertising agency were discussed in an article by Mark Abrams, "The Extent and Growth of Hire Purchase," The Financial Times (London), July 16, 1955, p. 4.

Table 8

United Kingdom and United States: Percentage of income units with hire purchase outstanding, classified by gross income, 1953

UNITED KINGDOM		UNITED STATES	
Annual gross income in pounds	Per cent with hire purchase	Annual gross income in dollars	Per cent with instalment credit
0 - 99	3.3	0 - 999	30.8
100 - 199	6.3	1,000 - 1,999	46.8
100 - 299	14.7	2,000 - 2,999	54.8
300 - 399	17.7	3,000 - 3,999	61.5
400 - 499	35.0	4,000 - 4,999	67.0
500 - 599	32.8	5,000 - 7,499	63.4
600 - 699	34.6	Over 7,500	47.0
700 - 799	30.5		
800 - 999	27.4	All groups	45.8
1,000 - 1,499	15.7		
1,500 - 1,999	19.2		
Over 2,000	7.5		

Sources: United Kingdom: L. R. Klein, "Patterns of Savings: The Surveys of 1953 and 1954," Bulletin of the Oxford Institute of Statistics, Second Quarter, 1955, p. 206. United States: "Survey of Consumer Finances," Board of Governors of the Federal Reserve System.

units in this category and in the next two larger income categories (£500-599 and £600-699) reported instalment debt in the Oxford savings survey. According to Abrams,[1] these largest users of hire-purchase credit include "the relatively well-paid working class (earning £8 to £10 a week) and the relatively poorly paid lower middle class earning between £600 and £700 a year."[2] Income units below £400 and those above £1000 reported comparatively limited use of hire purchase. Where about one out of three income units in the median classification in Britain reported hire purchase, about two out of three units in the median category in the United States reported instalment debt. In both Britain and the United States, the greatest use of instalment credit is made by units with incomes above the median.

The predominance among users of hire purchase of the younger working population in the United Kingdom is shown in the data in Table 9. The widest use is found in the 25-34 age grouping followed by the 35-44 and 45-54 age brackets. This pattern resembles the age distribution found among consumers in the United States. However, there are two important exceptions: (a) in general, the reporting of hire purchase is about twice as frequent among U.S. consumers as among British residents; and (b) an even greater divergence between British and American incidence is found in the 18-24 and the 55-and-over age categories.

The users of hire purchase in Britain, like those using instalment credit in the United States, are not without liquid assets. In both countries, income units reporting small amounts of liquid

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1/ See footnote 3, p. 22.

2/ Mark Abrams, "The Extent and Growth of Hire Purchase," The Financial Times (London), July 16, 1955, p. 4. United States statistics show that the unskilled and service and skilled and semi-skilled workers most commonly use instalment credit. By occupation, the units reporting personal debt in early 1953 were:

	Per cent
Unskilled and service	67.4
Skilled and Semi-skilled	64.9
Unemployed	53.3
Professional	53.1
Clerical and sales	51.2
Self-employed	50.6
Managerial	49.2
Protective service, students and housewives	38.2
Retired	21.8

Table 9

United Kingdom and United States: Percentage of income units with hire purchase outstanding by age group, 1953

(In per cent)

Age	United Kingdom	United States
18-24	13	60
25-34	34	71
35-44	29	66
45-54	25	55
55-65	15	42
65 and over	7	22
All ages	21	n.a.

n.a. = not available

Sources: Same as Table 8.

assets reported the widest use of consumer debt, as may be seen in Table 10. In the United Kingdom, however, those units with no liquid assets made relatively less use of hire purchase than did the comparable group in the United States. Furthermore, the units with substantial liquid assets (equal to the median income for the year 1953) showed only about one-third as general use of credit as do those in a comparable category in the United States.

A second survey conducted by an advertising agency in 1955, as reported in The Financial Times, showed that about one out of five respondents reported hire-purchase debt;1/ again, the relatively more prosperous working class and people in their 'twenties and 'thirties reported the greatest use of debt. This survey showed that a wide range of commodities were acquired under hire purchase in Britain

> "from motor-cars to books, and from perambulators to carpets, and that the average debtor was involved in buying two commodities simultaneously."1/

The main products bought were:

1/ Abrams, op. cit.

Product	Per cent of all hire-purchase debtors
Furniture	48
Television set	16
Clothing	9
Radio	9
Washing machine	6
Vacuum cleaner	6
Bicycles	3
Motorcycles	2
Refrigerator	1
Motor car	1

Thus, almost 10 per cent of British households were buying some furniture on hire purchase in 1955.

Table 10

United Kingdom and United States: Percentage of income units with hire purchase outstanding by classes of liquid assets, 1953

UNITED KINGDOM		UNITED STATES	
Liquid assets in pounds	Per cent with hire purchase	Liquid assets in dollars	Per cent with instalment debt
None	21.5	None	67.5
1 - 49	29.7	1 - 199	75.1
50 - 99	29.2	200 - 499	64.0
100 - 199	14.0	500 - 999	52.7
200 - 399	13.4	1000 - 1999	37.0
400 - 599	6.4	2000 - 4999	29.9
600 - 799	7.0	Over 5000	17.1
800 - 999	12.5		
1,000 - 1,499	7.0		
Over 1,500	4.9		

Sources: Same as Table 8.

The cost of hire-purchase credit

In obtaining funds for their operations, retailers generally find that bank overdraft charges are substantially lower than the cost of funds from finance companies. In early 1955, for example, retailers were paying about 4-1/2 to 5 per cent to banks and from 5 to 9 per cent to finance companies.1/ With the Bank rate now 2-1/2 per cent higher than it was in early January 1955, charges for bank overdrafts may have been raised by that amount, and perhaps in some cases more; the costs of finance company funds have probably also been raised.

In addition to bank borrowing, retailers probably also obtain some resources from the finance companies. Under the most common arrangement, the finance company buys the merchandise by means of an outright sale from the trader who has arranged the sale of the goods, and enters into a direct transaction with the hire-purchaser. In this case, the retailer has nothing further to do with the transaction; the finance company does the administrative work and collecting. Under a second type of arrangement which enables the retailer to retain connection with the customer, the retailer keeps the agreement in his own name; he gets the purchaser to sign a hire-purchase agreement and, in addition, a promissory note. The dealer can endorse in favor of the company whenever he wants to obtain funds. The cost of finance company accomodation to the dealer "will certainly cost more than a bank advance."2/ In general, the retailer sells the merchandise with "recourse" under the second method which is referred to in the trade as "block discounting"; and in this case, he is liable to the finance company if the customer fails to pay. When the retailer sells the paper outright, it may be "with" or "without recourse"; "without recourse" trading is common in the cycle trade and in sales of new or good used cars.

The costs of hire-purchase credit to the consumer vary widely depending upon the goods purchased. As a general rule, the percentage cost of the credit falls as the value of the goods rises because of the fixed service charges involved in the credit investigation, accounting and collecting. According to one estimate, the average charge on most household goods is from 5 to 9 per cent, on radio and television sets from 10 to 12-1/2 per cent and on bicycles from 15 to 20 per cent.3/ A second estimate4/ puts the quoted rates per annum as follows:

1/ "The Cost of Hire Purchase," The Financial Times (London), January 24, 1955, p. 4.

2/ Ibid.

3/ "The Cost of Hire Purchase," op. cit., p. 4.

4/ "How Hire Purchase Has Grown," op. cit., p. 156.

New and used cars	7-1/2	-	9
Furniture and radios	5	-	12-1/2
Bicycles	20		
Clothing	1/5	-	7-1/2
Public utility appliances	6		

However, both these estimates were made in the early part of 1955 before the subsequent rises in Bank and other London money rates. For example, the charges on appliances by the nationalized utilities have been raised from 6 to 7 and, recently, to 8 per cent. On the other hand an estimate published in June 1956 puts the cost of new and used cars at around 8-1/2 per cent and notes that "the charges on new cars for example has scarcely altered over the past 18 months" despite the 2-1/2 per cent rise in Bank rate.2/

In general, the "loss" experience on hire-purchase business appears to be favorable. One observer has stated that "bad debts 'in a properly run business' work out at only 0.5 per cent in good times or in slumps."3/ In addition, The Economist has reported that some hire-purchase traders have argued that a proposed premium rate of 1-1/2 per cent to cover insurance against loss arising from default under hire-purchase contracts is too high; instead, they propose a charge in the region of 1/2 per cent.4/

Control of hire-purchase credit terms

In connection with the administration of price control, the British Government in 1941 introduced wartime regulation over credit terms of hire-purchase contracts. Throughout the war, these regulations were used to limit credit purchases of scarce consumer goods. Service charges for time purchases were legal only to the extent that the authorized maximum price was not exceeded, unless specific provision for time payment was made in the Board of Trade's price control order. Except where specific exception was authorized by the Government, this indirect restriction of credit was replaced in 1943 by a prohibition of hire-purchase trading under Defense Regulations. All goods covered by price control orders with specific provision for credit charges were excluded; in addition, there was

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1/ Actual rates, not rate per annum.

2/ J. D. Marvin, "Hire Purchase Under Scrutiny," District Bank Review (London), June 1956, p. 39.

3/ The London Times (London), September 23, 1954, p. 7.

4/ "Hire Purchase Insurance," The Economist (London), January 1, 1955, p. 56.

a list of specified products.1/ After the war ended, additional commodities were added to the list of exceptions.2/ In June 1947, however, the over-all prohibition was revoked and restrictions over hire purchase once again became ancillary to the price control administration. Covering mainly price-controlled consumer durable goods, the regulations required a minimum down-payment of not less than 12-1/2 per cent, fixed the duration of the credit from nine months to two years, and stipulated a maximum interest or service charge at 20 per cent. These regulations came to an end with the elimination of the remaining price controls on April 29, 1953.

However, the new Conservative Government announced on January 29, 1952 that hire purchase of consumer durables would be restricted by Board of Trade order. Although the purpose of this innovation was to "lighten the domestic load on the engineering industry by restricting the supply of the metal goods which we buy for our personal use,"3/ Chancellor Butler added the observation that "hire purchase . . . is essentially a form of living beyond one's means."4/

The Board of Trade order provided for minimum down-payments of 33-1/3 per cent and maximum terms of 18 months of the following groups of manufactured goods:

Radios	Office furniture
Household durables	Office equipment
Beauty parlor equipment	Mechanically propelled bicycles and related vehicles
Lawn equipment	

For bicycles and other small vehicles, a 25-per cent down-payment and a 12-month term was established. Automobiles required a 33-1/3 per cent down-payment with 30 months to pay. Furniture was an important category not included under the order.

1/ Harold Cowan, "Changes in Hire-Purchase Finance," The Banker, (London), February 1948, p. 98. The specific products included: motorcycles and accessories (including tires), pedal cycles and tricycles, sewing machines, carpets and other floor coverings, radio sets, domestic cooking appliances, and hearing aids.

2/ The products added included: water softeners, refrigerators, gramophones, musical instruments, cash registers, office machinery, hand tool kits, and hair waving machines.

3/ Hansard, January 29, 1952, col. 58.

4/ Ibid., col. 59.

The new regulations were widely discussed. They were made the subject of Parliament debate on three occasions before they had been in effect six months; they were defended in Parliament as a method which could, in the case of scarce materials,

> "not only supplement physical controls but can sometimes supersede them and prove equally effective for their purpose, with far less interference with liberty and with consumers' choice."1/

These regulations were unchanged in any fundamental respect until they were withdrawn altogether in July 1954. Britain's improved economic outlook and the general elimination of other controls were important factors leading to the decision of the Board of Trade to end regulation of credit terms; in addition, a court decision which had legalized a hiring agreement on radios for longer term and without the 33-1/3 per cent down payment also contributed to this change in policy. In the words of The Economist:

> "The Board of Trade must have realized that its control order was dead and that it must either devise a new statutory instrument or abandon control."2/

The Financial Times also noted that "the various ways of circumventing the Order were making it clear that the law would have to be changed if its original purpose was to be maintained."3/

This respite from such controls proved to be short-lived, however, and on February 24, 1955, these regulations were re-introduced as part of a general restriction on internal demand. However, the down-payment requirements were much below those which had previously been in effect, as may be seen in Table 11, and maximum maturities were extended from 18 to 24 months. In reintroducing these regulations, the Chancellor announced "it is the Government's intention, as soon as opportunity arises, to seek permanent powers for this purpose."4/

By July 1955, the Chancellor reached the conclusion that these regulations had to be more rigorous and a general increase in down payments for most consumer durable goods from 15 to 33-1/3 per cent was announced (see Table 11). Maturities were not altered. In

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1/ Hansard, July 3, 1952, col. 766.

2/ The Economist, July 17, 1954, p. 218.

3/ The Financial Times (London), July 14, 1954, p. 4.

4/ Hansard, February 24, 1955, col. 1458.

Table 11

United Kingdom: Down-payment and maturity restrictions on hire-purchase contracts

	Minimum down payments (Per cent)				Maximum maturity (Months)			
	Jan. 1952 b/	Feb. 1955	July 1955	Feb. 1956	Jan. 1952 b/	Feb. 1955	July 1955	Feb. 1956
1. Radios, television and phonographs	33-1/3	15	33-1/3	50	18	24	24	24
2. Household appliances a/	33-1/3	15	33-1/3	50	18	24	24	24
3. Lawnmowers	33-1/3	15	15	20	18	24	24	24
4. Cameras and binoculars	c/	15	33-1/3	50	c/	24	24	24
5. Passenger cars	33-1/3	15	33-1/3	50	18	24	24	24
6. Trailers	c/	15	15	20	c/	24	24	24
7. Cycles with motors	25	15	33-1/3	50	12	24	24	24
8. Bicycles	25	15	15	20	12	24	24	24
9. Garages and sheds	c/	15	15	20	c/	24	24	24
10. Furniture and matresses	c/	15	15	20	c/	24	24	24
11. Watches and jewelry	c/	15	15	20	c/	24	24	24
12. Luggage	c/	15	15	20	c/	24	24	24
13. Baby carriages	c/	15	15	c/	c/	24	24	c/
14. Miscellaneous water-heating and heating equipment d/	c/	15	15	20	c/	48	48	48

Source: Statutory Instruments, 1952, No. 121; 1955, No. 297; 1955, No. 1130; and 1936, No. 180 by Board of Trade.

a/ Includes: space heaters, dish washers, drying cabinets, washing machines, ironing machines and irons, wringers, pressure cookers, floor polishers, vacuum cleaners, water softeners, refrigerators, electric mixers, electric cooking utensils and hot-plates, dry shavers, sewing machines and hair drying machines.

b/ From July 1954 to February 1955 there were no regulations in effect.

c/ Not included.

d/ This category comprises a large part of the hire-purchase trade of the nationalized public utilities (gas and electricity).

this step, the Chancellor was at pains to note that "our object is not to depress the sales of particular goods . . . but to relieve the pressure on home demand generally by asking the consumer to use more of his own income and less borrowed money."1/

On October 26, 1955, the Chancellor sought to reinforce the effectiveness of the hire-purchase regulations; as an additional "direct restraint on consumption," he obtained a general rise in Purchase Tax by one-fifth. This increase, the first since 1951, brought the lowest category from 25 to 30 per cent; the second category from 50 to 60 per cent; and the third category from 75 to 90 per cent (see Table 3). Motor cars and most household durables were included in the second category.

Table 12

United Kingdom: Recent changes in rates of Purchase Tax

	April 1951	April 1953	October 1955
		(Per cent)	
Category I a/	33-1/3	25	30
Category II b/	66-2/3	50	60
Category III	100	75	90

a/ Items of daily household use, including carpets, linoleum, hardware, cutlery, bicycles and so forth are included.

b/ Consumer durable goods, including motor cars, radio and television sets, refrigerators, vacuum cleaners and washing machines.

Source: United Kingdom budget speeches. Information about these taxes in earlier years can be found in "Purchase Tax," Midland Bank Review, November 1952, pp. 1-6.

On February 17, 1956, there was a general tightening of hire-purchase terms on three fronts. In the first place, down-payments were raised, mostly from 33-1/3 to 50 per cent or from 15 to 20 per cent, as may be seen in Table 11. Maximum periods of repayment were

1/ Hansard, July 25, 1955, col. 828-9.

unchanged. Automobiles and most household goods bore a 50 per cent deposit requirement for the first time. Secondly, controls were placed on rental transactions as well as on hire-purchase sales; this step presumably was designed to block an important means by which the regulations had been avoided.1/ Thirdly, control was "extended to a comprehensive range of capital goods subject to a 50 per cent down-payment and maximum repayment period of two years."2/

Finally, on August 21, 1956, the Board of Trade introduced regulations to check evasions through the use of short credits or rentals. Under one order, it became illegal to have a hiring agreement on controlled goods for less than 9 months. Previously, credit sales (where title passes with the first payment) of less than 9 months had been excluded in order to exempt revolving and other short-time credits normally provided by retailers; however, this exemption led to substantial use of 8 month or 38 week agreements, especially in television, radio and electrical goods.3/ Payments by meter and similar rental transactions were also forbidden.

Concluding observations

The declines in hire-purchase credit during 1956 are likely to be little more than a temporary setback to the pronounced secular growth in the markets for durable consumer goods in post-war Britain. This trend toward a more general consumption of durable goods, which is being stimulated by the availability of hire-purchase credit, is profoundly modifying British social habits as well as its financial patterns. For example, The Economist sees in consumer credit "signs of being precisely the sort of dynamic influence that the country so badly needs" because it will overcome the "lack of incentive to the individual worker" which was one reason for the sluggishness of the British economy in the post-war years.4/ This view is endorsed by Fry's observations:

1/ The increasing use of rentals (hiring without the option to buy) in television sets and in other fields as a means of getting around the hire-purchase restrictions is discussed in "Hire or Hire Purchase," The Economist (London), August 13, 1955, p. 568.

2/ Hansard, February 17, 1956, col. 2678.

3/ The Financial Times (London), August 21, 1956, p. 1. These changes are also discussed in "New Rules for Hire Purchase," The Economist (London), August 25, 1956, p. 663.

4/ The Economist, February 26, 1955, p. 688.

> "In the cities and towns where the ambition to own 'durable consumer goods' has been thoroughly aroused, almost every working-class household seems to have some commitment to pay instalments . . . A workman . . . said calmly: 'When a chap wants a TV he finds a job for his wife.'"1/

One of its advocates, Dr. R. F. Henderson, sees as background to the development of instalment credit a second industrial revolution which "is providing better homes and better transport, houses with more comforts and less drudgery, more motor bicycles and motor cars. Expenditure on these items arises not only from the real incomes of wage and salary earners, but also from a change in the pattern of expenditure by the rich away from the direct employment of large staffs in big houses and gardens to purchases of refrigerators, television sets and motor cars."2/

Within the strictly financial field, recent hire-purchase developments -- and in particular the recent rapid growth of borrowing by smaller finance companies from the public through deposits at higher rates of interest -- have created new problems for the instalment finance companies, for the commercial banks and for the monetary authorities. The smaller finance companies have already projected an Association of Industrial Banks; by becoming "banks," they hope to be able to obtain deposits more easily from the public. To promote a high standard of management, the Association's steering committee has proposed that: (a) borrowing of members should not exceed 5 times the paid up capital and reserves and (b) liquid assets of cash or Treasury bills be held at one-tenth of total public deposits or of 30 per cent of demand deposits, whichever is greater. "The unwillingness of many of the finance houses . . . to adjust their business practices" to comply with these rules is given as a reason why only one or two companies have joined with the five founding firms.3/ Quite a different view of the liquidity needs of these companies is reported in The Financial Times:

> "a cash cover of 7-1/2 per cent of total liabilities, a second line of liquid assets being available at any time in the shape of the instalments due to be paid in on hire-purchase contracts during the ensuing month."3/

1/ "Men at Work," by Fry, Manchester Guardian Survey of Industry, Trade and Finance, 1955, p. 24.

2/ R. F. Henderson, "The Economic Effects of Hire Purchase," in Hire Purchase, Spring Lectures, 1956, The Institute of Bankers, pp. 3-4.

3/ "Liquidity for Hire Purchase Finance Houses," The Financial Times (London), June 25, 1956, p. 3.

The report added that an examination of the balance sheets of these houses showed that a few firms showed a cash-liabilities ratio of more than 10 per cent, but that others were content with a 2 or 3 per cent and, in some cases, with less than a 1 per cent ratio.1/

Misgivings about the quality of the management and the prudence of the operating practices of some firms have resulted from the mushrooming growth of the hundreds of smaller firms in recent years.2/ These fears have led to Parliamentary questions about the "steps /the Chancellor of the Exechequer/ proposes to take, by promoting legislation or otherwise, to ensure the solvency and the sufficiency of capital resources of companies which invite loans from the public and relend the money for hire-purchase purposes"; the Economic Secretary replied that this matter was under consideration and that "there are complex legal questions involved."3/

Finally, the London clearing banks are "doing some hard thinking" about their future role in the hire-purchase field.4/ The experiment of the Commercial Bank of Scotland in buying out a Scottish firm specializing in financing automobiles and industrial plants has "been a considerable success." The Bank's most recent consolidated balance sheet showed an "increased profit earned during the past year . . . mainly attributable to the successful efforts" in the hire-purchase field.5/ Apparently, a number of the Bank's competitors in Scotland are studying the possibility of following the lead, and "at least one of the large London clearing banks is working on plans for taking similar action at the first sign of a decided turn for the better in the country's general economic situation."6/

1/ "Liquidity for Hire Purchase Finance Houses," The Financial Times (London), June 25, 1956, p. 3.

2/ See, for example, Carmichael, op. cit., p. 51.

3/ Hansard, March 23, 1956, col. 2334.

4/ "The Banks and Hire Purchase," The Financial Times (London), May 3, 1956, p. 3.

5/ See The Scottish Banker's Magazine, February 1956, p. 194. The Bank reported 26,000 accounts in 6 branches in Scotland and 15 in England and Wales with £7 million outstanding in 1955 compared with £4 million a year earlier.

6/ The Financial Times (London), May 3, 1956, p. 3.