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Statement by Mike Mansfield - Nothing Down, Years to Pay

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Statement of Senator Mike Mansfield (D. Montana)

"Nothing Down, Years To Pay"

Mr. President, Americans are buying, building, investing--and borrowing--as never before. We in the United States are enjoying prosperity with no equal in our history. Personal income is running at the highest level in history. At last report for it was at an annual rate of $301.1 billion, some $14.4 billion above a year earlier, according to the Wall Street Journal, July 22, 1955.

The May figures show that installment debt totaled a record 24.1 billion on that date, up $2.7 billion~~, some $14.4~~ from a year earlier. Auto credit accounted for some $1,983 million of the rise, increasing to $11,985 million.

The trend toward easier terms and expanded credit buying has given rise to a great deal of concern among bankers, economists and many others in the nation. Is this a normal and healthy situation? I do not know, but I am inclined to believe that there should be some sort of restraint or watch-dog regulation to give some assurance that there will not be a sudden dive off the deep end.

The consumer debt alone is more than $32 billion, according to Time Magazine, July 17, 1955. Since the end of World War II it has gone up six-fold. The average amount owed per household is nearly $700, as stated in this particular account on consumer buying.

Since the economy began pulling out of the 1954 dip, there has been an enormous demand for credit.

The people of America own more homes, cars, appliances and luxuries than ever before, a large percentage of these things are being paid for on the instalment plan. The consumers market has become very competitive in recent years and there is a near saturation point in many retail markets. Appliances are being offered at fantastic terms as sale incentives, no money down and months to pay, even on payments as low as $5 and $10 a month.

The greatest expansion of eased credit terms has been in automobile sales. The traditional sound financial arrangement in the purchase of a new car on the time-payment plan has been 1/3 down and 18 months. Today terms on a new car are generally standard at 30 months with 30 percent down. It is reported that in some places they have increased the time to a 42-month basis. When you get terms out so far, depreciation catches up and passes the payments. Such a development encourages repossessions.

Real estate is a similar situation. On a 30 year, 4½ percent, no-down payment mortgage nearly 3/4 of the first year's payments go into interest, not principle.

Lending and borrowing are desirable and essential elements in any recovery. They expand purchasing power and thereby promote mass markets for consumer goods and promote the growth of production and employment. The question is whether this can go too far; history shows that it can. The consumer debt looks almost formidable standing alone, but at the same time I realize that everything else has grown too, including the total population.

In 1929, when most everybody was happy to mortgage a future, the nation's consumer instalment debt totaled $3.1 billion. That was 3.8 percent of total income after taxes, then $83.1 billion. In the first quarter of this year, Americans had a personal income after taxes equivalent to an annual rate of $261 billion. According to Time Magazine, July 17, 1955, this is a rise of $14 billion in two years.

After the bills are paid, there is still a lot of money left over, but the thing that worries me is how the debts and the income and savings are distributed. Federal Reserve Studies show that of families with debt, somewhat less than a third had bank accounts or bonds greater than their debt and somewhat more than a third had bank accounts or bonds but in amounts less than the debt. There remains about one-third with consumer debt that had no bank account or bonds whatsoever. This means there are many people who are buying on the instalment plan with nothing but their current income to go on.

All present indications are that consumer credit is still within limits. However I feel that it would be desirable to legislate some type of regulation to guard against over-expansion of credit. The Government's most direct control over consumer credit would be through reinstatement of Regulation W, controlling amount of down payments and length of pay-off time. This would require new legislation.

Regulation of consumer credit by the Federal Reserve has been a temporary credit restraint in times of emergency to supplement general credit measures. It was first established in 1941 by an Executive Order of the President based on war emergency powers. Its purpose was to curb the use of credit for the purchase of scarce commodities and to hold down prices.

In accordance with the President's Executive Order, the Board of Governors of the Federal Reserve Bank issued Regulation W prescribing terms upon which such credit might be granted. At the outset it applied only to instalment sales and instalment loans, in which form the great bulk of consumer credit was being generated. Later in World War II the scope of the regulation was broadened to include a large number of articles whose purchases involved down payments and to cover charge accounts and single-payment loans.

In the two-year period immediately following the war, regulation of consumer credit was continued with some relaxation. Regulation by the Federal Reserve was terminated late in 1947. It was reinstated temporarily from early fall in 1948 until mid-1949 as a special anti-inflation measure. Regulation of consumer credit was again reinstated in the early fall of 1950 under the temporary authority of the Defense Production Act.

In the post-Korean period, Regulation W applied to instalment sale credit and instalment loan credit used for the purchase of specified major durable goods, and to instalment loan credit for some other purposes. In the Defense Production Act amendments approved June 30, 1952, Congress repealed the authority for regulation of consumer credit.

Mr. President, in conclusion I wish to urge that each and every member of the United States Senate give serious thought to the future course of consumer credit. I think it might be wise to reinstate Regulation W or something similar to avoid the possibility of a crash in any segment of American business and to make secure the prosperity we now enjoy.