Our success remains to be seen.
(Dr. Reuter's full statement follows:)

TESTIMONY OF DR. RALPH R. REUTER, CHAIRMAN, METROPOLITAN NEW YORK CONSUMER COUNCIL, INC., NEW YORK, N.Y.

Madam Chairman and distinguished members of the Subcommittee on Consumer Affairs:

We feel proud and honored to be able to support H.R. 11601 without reservation.

The Metropolitan New York Consumer Council, an organization of more than one hundred and seventy member organizations who have gathered together in the Council to promote and educate for the consumers welfare, is indeed grateful that this legislation is finally receiving the kind of attention which it long ago deserved and which most certainly is rather belated.

Your hearings to date have undoubtedly convinced you that consumer credit is no longer a sales tool. It has become a sales object. Debt is promoted with all the skill and ingenuity that American advertising and sales promotion can muster. And debt is sold on precisely the same ethical standards as those that characterize the promotion of the cold cure, the headache remedy, the weight reducer, the cigarettes, the detergent, the hair ointment, etc. This is indeed a matter for real concern for the Congress of the United States as the elected representatives of all the people.

Twenty-two years ago, the big war was all but over. Back in 1945 people were beginning to satisfy their war-starved appetities for homes and things, and especially for cars, mostly with cash money. Mortgage debt for urban homes then was around $20 billion and short-term debt for goods—debt scheduled for repayment in five years or less—was less than $7 billion. Ten years later, in 1955, mortgage debt had grown to $88 billion, more than four times what it had been. Short-term debt had grown to $39 billion, six-and-a-half times what it had been. In another ten years, by 1965, mortgage debt had become $200 billion, ten times its 1945 level. Short-term debt had multiplied twelve times to a total of $80 billion. Because of its pivotal importance, it is the latter kind of debt, the debt associated with the acquisition of consumer goods and services, that we must point to. A house and lot can be considered an investment. But short-term debt for consumption purposes is seldom more than a promise to pay. The goods financed have no substantial market value once they are acquired and the promise to pay under an installment note is based largely upon the expectation of future earnings.

How will economic historians, or anthropologists, be able to explain in the year 2967 just what has happened to us during the past twenty-two years. How will they account for our having the largest per capita debt for consumption purposes in our history after experiencing twenty-two years of what we have called unprecedented prosperity? How will they explain that, during these twenty-two years of great prosperity, our personal bankruptcies rose to an all time high, more than double their number during the depths of the depression, increasing at a rate twice as fast as the population?

While debt for consumption purposes expanded twelve times over to reach $80 billion, disposable income only tripled between 1945 and 1965. Who then loaned out these billions so fast that debt increased three times as fast as did the wherewithal to pay them back? Commercial banks are the largest holders of consumer paper. They account for about 40% of the total. Sales finance companies come next, with less than half as much as the bank. Then come department stores, credit unions, other loan companies, and other retailers, etc.

With respect to consumer lending, the banker has certainly changed his conservative ways. We once understood that instalment loans on goods were a sound and solid undertaking because of the terms of such loans were so calculated that the goods sold constituted security for the debt financing involved in their sale. And this principle, we gathered, was, practically speaking, immutable because lenders were prudent. Ordinary people, as we all know, are not always so constituted that they withstand well the pressure of urgent present desires if there is a conflict between today's clear wants and tomorrow's hazy needs. But lenders are different. They are disciplined fellows. That is how they got where they are. Hence the once-prevalent idea was that we could all depend on the bankers and other lenders to insist on security for their loans and his prudence would save