

to insure that the economic processes of borrowing and lending promote the general public welfare.

If they are to be sound, arguments for enacting legal control of consumer credit must rely on the best economic and social research and analysis available. Unfortunately for the public interest, in this as in many other areas of policymaking through legislation, pressures from pecuniary self-interest are so great that they lead to enormous concealment of fact and distortion of analysis. To uncover the real economic issues underlying state consumer-credit laws is the primary purpose of this article.² Three issues are selected for extended discussion, mainly because of their appearance in credit-industry arguments presented in the course of debate on consumer-credit legislation.

1. What is the precise definition of consumer credit? Are legal regulations commensurate with the appropriate economic definitions?

2. What must the state do to establish framework conditions on both the demand and the supply side of the consumer-credit market in order to make it function more effectively and more in the public interest? On the demand side of the market this refers particularly to state action requiring disclosure of information useful to the customer. On the supply side this refers to state control of operating methods of the companies, with particular reference to selling and collection practices, credit-rating bureaus, and the relationship of financing agencies to sellers of merchandise.

3. Can competition be relied upon to produce fair rates after the state has established the framework conditions surrounding the market? If competition in the market cannot be relied upon, then should the state set rates, or should the state set ceilings far above the prevailing rates and designed merely to ward off instances of gross extortion?

II. DEFINITION OF CONSUMER CREDIT

A definition of consumer credit is necessary in order to identify and classify the realities of that to which regulation might be directed.

² It should be emphasized that this article is by no means a complete treatment of the importance or significance of consumer credit in the functioning of the national economy. The questions raised by this issue include the following: (1) Does consumer credit constitute a destabilizing force in the economy? Does it really stimulate consumer saving? (2) In enabling him to enjoy goods and services before accumulating the income to pay cash for them, does consumer credit benefit or harm the consumer? (3) Does consumer credit benefit producers by expanding product markets and allowing the production economies that go with an increased volume? (4) If the objective and subjective gains from the use of credit, whether they be monetary or nonmonetary, are greater than the costs, is not consumer welfare really increased? These questions have been raised by economic writers since the earliest days of installment credit. See Neufeld, *The Economic Significance of Consumer Credit*, in *Consumer Credit in Canada* 5 (Ziegel & Olley ed. 1966).