

they lend to sales or consumer finance companies that make loans or buy paper.¹³

In the last analysis, these money-creating powers are delegated by the federal government itself. This provides an additional reason then, for governments at all levels to be sensitive to the need for legal controls over practices associated with lending and borrowing. State regulation of consumer-credit practices generally includes the following provisions: (1) licensing of firms engaged in this activity; (2) detailed requirements pertaining to contract terms and to practical methods of operating by such firms; (3) some stipulations about rates or maximum charges; and (4) supervision, examination, and code enforcement by a state agency, usually the bank commissioner.

A. *The Capital Market*

The consumer-credit market is only a tiny segment of the much larger and economically crucial capital market. On the demand side of the capital market are grouped the entrepreneurs or producers who have plans for expansion of production and need to borrow capital. They expect to sell their goods at a margin great enough to yield a profit over and above the sum necessary to pay the interest cost of the borrowed capital. Many agencies catering to the demands for consumer credit are in fact on both sides of the market. They are on the demand side of the capital market because they anticipate putting borrowed funds to work by lending them to consumers, thereby earning sufficient income to pay the interest cost of the borrowed capital and to create profits for themselves.

On the supply side of the general capital market are all those financial agencies that specialize in attracting and collecting income from "savers." "Savers" are those people willing to forego temporarily the use of newly earned income in return for interest. In addition to this source of supply of capital funds, the commercial-banking system, operating under federal-reserve requirements, can provide a further source of funds that have never been income and are newly created demand-deposit money. Thus, the supply side of the capital market is made up of two rather different segments.

Consumers of goods and services (including the services of money-lenders) appear in the capital market only indirectly through the agencies (*e.g.*, banks and finance agencies), whose credit is much stronger. Consumer-credit demand, therefore, as anticipated by these financial intermediaries, is translated into the demand side of the

¹³ Robinson, *Money and Capital Markets* 261-62 (1964). For a comparison of the roles played by commercial banks and financial intermediaries in this process, see Smith, *Financial Intermediaries and Monetary Controls*, 73 Q.J. Econ. 535 (1959).