

present purchasing power for one year.¹⁵ This form of disclosure has been resisted by most lending agencies. In doing so, however, the opponents of annual-rate disclosure completely ignore the fact that consumers are always beset with annual-rate quotations when banks and lending institutions attempt to attract savings and deposits from the public. The necessity for a consumer to compare what he is able to earn when he puts his money in a bank with what it will cost him when he takes money out of a bank—the necessity of having these comparisons available in identical percentage terms—is a chief and most compelling consumer argument for disclosure of annual-rate information.

The opponents of such disclosure generally attempt to draw fine distinctions among the actual cost elements in the charges on loans. For instance, Professor Robert Johnson has said:

Examination of the operating costs of credit institutions reveals that the dominant component of this "credit package" is the service element, that only a relatively small portion of the finance charge paid by the consumer can be attributed to pure interest.

... Because the major component of a consumer finance charge is for service and risk, it is more properly viewed as a service charge.

If it is treated as a service charge, the consumer finance charge need not be converted into an annual rate. Indeed most service charges are presented in much the same manner as finance charges are now stated to the consumer.¹⁶

Two comments are in order. First, what Johnson says about the components of cost included in the credit package is correct, but it is likewise applicable to any and every interest rate charged either to consumers or to businesses.¹⁷ Second, the fact that service charges have long been presented in a certain way does not at all mean that their conversion into an annual rate could not be done and would not be an improvement. As far as the borrower is concerned, all types of charges are the same: they are part of the total cost of credit to him. What the consumer needs to know is whether 5 per cent interest from a savings bank provides a better use of his funds than paying off what is called a "4 1/2 per cent" auto loan. It usually does not, and it is highly un-

¹⁵ The function of interest rates is so critical to the operation of the economy that sophisticated commercial dealers convert practically every financial instrument and financial transaction into percentage terms. This is done to make as fine a profit calculation as possible, to guide the businessman in the selection of the most profitable investment of his assets.

¹⁶ Johnson, *Methods of Stating Consumer Finance Charges* 14 (1961).

¹⁷ Messner, *Social Ethics, Natural Law in the Western World* 814-15 (rev. ed. 1965).