The last sentence, which we have emphasized, tells the story. From the consumer's view, the lender's true (gross) return equals the true annual interest rate.

The Senate has taken its definition straight from the horse's mouth. Its draft of the bill calls for use of the actuarial method, and would instruct the Federal Reserve Board to describe methods for computing actuarial interest rates for almost any conceivable installment credit arrangement now in common use. Credit contracts would have to state, additionally, the rest of the payment terms: the purchase price, the size of the down payment, the balance to be financed as a loan, the number, size and frequency of payments and the total finance charge. Some states already require disclosure of some or all of those items. Only one, Massachusetts, requires disclosure of the annual interest rate (as figured by the constant-ratio method).

There is every indication that the House of Representatives will also pass a Truth-in-Lending Bill this session. House hearings were scheduled for August on a bill much more sweeping in scope than the Senate's. President Johnson will almost certainly sign the bill that emerges from Congress. He has put the full force of his influence behind compulsory disclosure of true annual interest.

LEGISLATIVE PURPOSE

The strengths and weaknesses of the bill as it shapes up thus far can be properly understood only in terms of the purposes underlying it. To be sure, politicians are as much in favor of truth as they are against sin. But truth as such is not the basic objective. Behind the progress of the Truth-in-Lending Bill is a vital need for marketing tools to help stabilize a most turbulent sector of the national economy.

Total short-term consumer debt has been growing at a furious pace. In the past 15 years, it has quadrupled to a present level of around $95 billion. About $75 billion is installment debt, on which repayments last year were $73 billion. By comparison, total personal income has only a little more than doubled in the same 15 years, and now stands at about $505 billion, after taxes. Plain arithmetic thus says that about every seventh dollar in the average pay envelope is spent before it's earned.

And plain arithmetic understates the case. You must add interest charges of about $12.5 billion per year. You must also take into account that only about half of the nation's wage earners have short-term installment debts. Installment debt alone, plus its interest, is generally estimated as laying prior claim to one dollar of every four in an *average debtor's* pay.

Some economists fear that, with so large a part of future income committed in advance, any serious rise in unemployment or drop in wages would snowball into a major recession. For many people would have all they could do to make their payments; they would be in no position to increase their debts, and their cash buying power would be harshly curtailed. Nevertheless, the present long-term economic boom has been stimulated by the huge and expanding wave of consumer credit. It is therefore understandable that nobody in the Government has come out against the fast-growing consumer installment debt as such.

It's the turbulent fluctuations in credit expansion that cause official concern. Like Robert Louis Stevenson's little shadow, the rate of increase in consumer credit sometimes shoots up taller like an India-rubber ball, and sometimes gets so little that there's none of it at all. The pattern of sharp rises and falls over the past 15 years is shown in the graph below. It traces three periods of extraordinary credit growth. After the first two peaks, in 1955 and 1959, the rate of borrowing fell to around the break-even point, where, over a year's time, the total of new borrowing very nearly equaled the total of repayments.

Do purchasing *intentions* normally fluctuate so wildly? Or does some outside force radically change them?

Looking back from the vantage point of the recession year 1958, CU saw signs of the lender's hand at work. "Seven million high-priced autos were moved out of dealers' inventories [in 1955] in one of the biggest sales blitzes of all time," we noted, "and some 60% or better of those cars were sold on the cuff. Moreover, one of the tools of the blitz was an extension of installment contracts to 36 months. Other sellers, competing with autos for their share of the consumer dollars, also offered terms of nothing down and 36 months to pay for rugs, furniture, etc.