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MR PAGE

cc: Chancellor
Chief Secretary
Financial Secretary
Mr Bridgeman
Mr Unwin
Mr Middleton
Mr Riley
Mr Bottrill
Mr Butt
Mr Folger

STATEMENT: CONSUMER CREDIT

The Financial Secretary has suggested that the defensive briefing available on consumer credit should be expanded (there are short references in brief A4). I offer the following additional guidance to meet suggestions that the Chancellor should have increased HP controls or otherwise acted to reduce lending to persons.

1) Direct controls over banks' lending would increase distortions. It would not be very effective; there would be an incentive to channel business outside the control. This would in turn be difficult to monitor and tend to damage the financial system (compare impact of direct ceilings in 1960s which contributed to growth of 'fringe banks').

2) Bank lending to persons is a relatively small part of total. (About 12% of outstanding bank advances represent advances to persons, other than for house purchase. If only the clearers are considered, the total rises only to 16%.) These bank

~~The banks~~' figures include bank lending to persons via credit card companies and a large part of lending for HP, etc via Finance Houses and other credit grantors. (see also footnote).

3) HP controls currently apply only to a limited range of (relatively expensive) goods (mainly cars, but also domestic electrical goods). To tighten the controls would probably have some effect in relation to the particular goods involved. But this particularly would be discriminatory and could be damaging for some of the industries concerned.

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4) HP controls also discriminate between different forms of credit. There is a variety of ways that consumers can obtain credit (overdrafts, personal loans, credit cards, option accounts, charge cards, etc) and any tightening could be evaded. Moreover it would be more easily evaded by those with access to other forms of credit; ie it would be discriminatory as between persons.

5) Money advanced on credit cards is within total of bank lending to persons. Repayment requirements could be tightened, but it would be difficult to justify singling out this one form of (relatively expensive) personal credit.

6) Bank's guidance to banks on the direction of their lending remains in force.

To summarise: restrictions on credit to consumers would be discriminatory, have undesirable side effects and, because consumer credit is a small part of the total, do little alone to bring bank lending and money supply growth under control. Instead the increase in interest rates will bite equally on all forms of credit.

M L Williams

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15 November 1979

*(relevant to point 2 above). So far as we can tell – and there are difficulties with the figures – consumer credit has been growing slightly slower than, and certainly no faster than, lending as a whole.