CABINET

HIRE-PURCHASE

Memorandum by the President of the Board of Trade

On 12th July, the Cabinet invited the Chancellor of the Exchequer to report further on the economic situation in the light of consultations with me and with the other Ministers concerned (C.M.(55) 22nd Conclusions, Minute 3).

2. The Chancellor and I have been considering what further restrictions could be imposed on hire-purchase as part of the measures to restrict credit and restrain inflationary pressure.

3. We have not thought it wise to tighten the restrictions over the whole field, since this would seriously aggravate the difficulties of those industries which have already been hit (e.g., furniture). We suggest instead more severe terms for a wide range of goods which the restrictions have not, so far as we can judge, greatly affected. In doing this, we are not singling out these particular goods to assist exports, to save scarce materials or because they may be thought less essential than the others. We have chosen them because they seem to offer the best chance of squeezing out some further consumer credit. The aim of the control remains, broadly, to reduce the quantity of purchases made from borrowed money, not to hit at particular industries.

4. We propose to raise the minimum deposit from 15 per cent to 33\(\frac{1}{3}\) per cent for the following goods:

- Radio and television sets, and gramophones.
- Domestic appliances - gas and electric fires (but not cookers), electric washing machines, vacuum cleaners, refrigerators, sewing machines, wringers, irons, etc.
- Cameras and binoculars.
- Cars, motor-cycles and power-assisted cycles.

We do not propose to shorten the period for payment below two years.

5. Any such selective list must be rough and ready, and we would not defend in detail the inclusion of these items or the exclusion of others. The inclusion of domestic appliances (except cookers) may well come in for special attack, probably on the grounds that it will lessen incentive and retard the improvement in the standard of living of the better paid workers. Domestic appliances, however, account for a substantial and rising volume of consumer expenditure and, as this is a field where hire-purchase flourishes, it is right to make borrowing there more difficult.
6. We have considered the possibility of raising the minimum deposit for cars still further. The Chancellor would on balance favour increasing the initial deposit to 40 per cent. This, however, would almost certainly involve issuing a great many individual licences for exceptions, e.g. to doctors, and midwives, small professional men working on their own account, car hire firms catering for the tourist trade, which I am anxious to avoid. It would also have the disadvantage of adding a third tier of deposits and so detracting further from the simplicity which has so far been an asset of the control. This is by no means an easy measure to defend on any basis and the more complex the control the more difficult it is to defend.

7. The higher we drive the deposit, the greater the incentive to evasion, e.g. through hiring. A deposit of 33\(1/3\) per cent is probably the limit, and even at this level there will certainly be an increase in evasions. It is important that the nationalised industries should not set a bad example by switching to large-scale hiring, and it might be desirable for the Minister of Fuel and Power to use his influence to prevent this.

8. I must warn my colleagues that the restrictions which we are proposing may cause unemployment in certain firms, particularly those which specialise in the manufacture of domestic appliances. We must be prepared to face more instances of the sort of trouble that we have been having with the furniture industry. This must all be seen, however, against the background of very high employment in industry generally and indeed a recovery in the furniture industry.

9. If my colleagues agree that these further restrictions should be imposed, the Chancellor will announce them in the comprehensive statement on the economic situation which he proposes to make before the House rises. I will then make the necessary Order to come into force immediately. This procedure will explain the restrictions in their proper context and avoid any forestalling by traders.

P.T.

Board of Trade, S.W.1.