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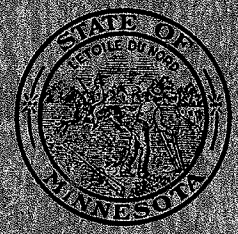
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# CONSUMER INTERESTS

A Special Message

by

Governor Orville L. Freeman



Presented to the Members of the  
Minnesota Legislature  
February 23, 1959

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STATE OF MINNESOTA

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A Special Message by

Governor Orville L. Freeman

Monday, February 23, 1959

To the Members of the 61st Session of the Minnesota Legislature:

In this brief message I should like to call your attention to measures directed toward the protection of consumer interests in the State of Minnesota. I believe it is essential to give special attention to consumer interests at this session of the legislature for two reasons: first - the increasing importance of the cost of living factor in our general economic welfare; and second - the increasing significance of the role of government in relation to consumer interests.

COST OF LIVING

General recognition of the increases in the cost of living that have taken place in recent years makes it unnecessary to deal at length with this fact. Between July, 1953 and July, 1958, the over-all retail price index for major cost of living items went up over eight percent. And during the one year of 1958, a year of recession and unemployment, the rate of increase was even more rapid, amounting to 2.57 percent in just one year.

This over-all rise in the cost of living of more than two and one-half percent during a recession year has aroused people to be as concerned about their "spending power" as they are about their earning power. Rising prices can eat up all the gains from higher wages and incomes. Even more disturbing is the toll taken by rising prices from older people on fixed retirement incomes.

Important as it is to control inflation, there is not much that state government can do to control over-all national price levels. But we may be able to do a great deal toward helping consumers to increase their buying

power and to protect their interests.

#### ROLE OF GOVERNMENT

Government today must be concerned with the economic welfare of the people. Under our philosophy of free enterprise, the producer and distributor of goods is almost wholly in private hands. Powerful groups of producers compete with or combine with each other. Among other things, government is charged with the responsibility of fixing and enforcing the rules of the game. In carrying out this function, government is expected to represent the public interest. In other words, in the conflicts and competition between various producing groups, government should represent our interest as consumers, the one interest that we have in common.

Yet experience has repeatedly shown that grave difficulties beset this representation of the consumer or the public interest. Agencies and commissions set up to regulate various communications, transportation, and other economic activities are subjected to pressures and influence on the part of those very groups they are supposed to regulate in the public interest. When new rules of the game are proposed in the form of new regulations or new legislation, those most active and effective in pressing their points of view on government agencies or on the legislative bodies are the specific interests concerned.

Such special representation of interests, whether in the form of lobbying or various other kinds of pressure, is an accepted feature in our government. It is not necessarily an evil in itself, for all life in our modern interdependent society must involve a compromise of conflicting interests. If the conflicting pressures would counterbalance each other, a balance could be achieved. But such a compromise or balance can be acceptable only if the strengths of the various pressures are at least approximately in proportion to the numbers of people whose interests are

represented in each pressure group.

There is one economic interest that is almost always under represented wherever these conflicting pressures meet, and that is the consumer interest. Thus the voice that really expresses the interests of the greatest number has the weakest voice in our councils. Government should, therefore, make a special effort to strengthen that voice.

#### CONSUMER CREDIT

One field in which vast numbers of consumers have a deep interest of increasing importance is that of consumer credit. Few areas of economic activity have expanded as rapidly in the post-war period. Whereas the volume of consumer credit in the United States amounted to only eight billion dollars in 1946; by 1958 it had increased more than 500 percent to a total volume of forty-three billions of dollars. This rapid increase in volume has been accompanied by increased sources and kinds of credit and by pressures for various changes in laws regulating or affecting the extension of credit to consumers. Each recent session of the Minnesota Legislature has witnessed such proposals for change, and some changes have been made.

#### Appointment of Committee

Proposals for changing the rules applying to one or more types of institutions that extend credit are usually sponsored by the institutions concerned, and are made for their benefit. This is entirely in order. However, members of the legislature and other public officials are obligated primarily to protect the interests of all the people, even as they maintain a proper concern for a fair, equitable and favorable climate for the development of all legitimate business enterprise. We cannot fulfill our responsibilities effectively unless we have at hand all of the pertinent information. I, therefore, appointed a special Study Committee on Consumer Credit more than a year ago to study the over-all picture of sources and

terms of consumer credit in the State of Minnesota.

This Study Committee on Consumer Credit consists of twenty-one members, including members of the legislature, representatives of each of the principal kinds of institutions that extend consumer credit in Minnesota, and leaders in the fields of agriculture and labor, and consumers themselves. I am very much impressed with the amount of work, study and serious discussion which members of this Committee devoted to their task. I have given its report and the recommendations it contains careful consideration; and the principal recommendations that I now make in the field of consumer credit are based on the recommendations of this Study Committee.

Bill to Require Disclosure of True Simple Interest Rate

The Committee recommendation that I believe would offer the greatest protection to the consumer who needs credit is the enactment of a simple law which would require that in all forms of agreements for consumer credit the amounts charged either as interest or as finance charge must be stated in terms of simple interest on an annual basis.

Consumers should expect to pay a fair price for credit, just as they should pay a fair price for goods they buy. But, just as they are entitled to know the exact nature and price of merchandise they purchase, they are entitled to know the price they pay for credit, in terms they understand. At the present time interest rates and/or carrying charges range all the way from an amount equivalent to five percent per annum or less to more than sixty percent per annum. In a high proportion of cases the individual securing credit does not know the actual amount or percentage he is paying. Nor does he realize that our competitive system applies to this field of enterprise as well as to others, and that by knowing all the available sources and their true, comparative interest rates he might be able to secure credit more advantageously from one source than another.

Under present laws and practices there is much confusion about actual rates and charges are expressed in such varying terms that only the most experienced are likely to know exactly how much they are paying for credit. It is reasonable and fair that different kinds and amounts of credit, with varying degrees of risk to the lender, should vary in cost - and we know that it is sometimes extremely difficult to determine exactly what rate is both adequate to the lender and fair to the consumer. Yet it is traditional under our laws and practices that we fix, by legislative action, the maximum rates and charges that can be made by credit agencies. These legal maximums are now the major protection that exists against exploitation of the borrower.

The enactment of this simple requirement for a statement of true simple interest rates would, however, offer such an additional degree of protection that the exact determination of maximum rates and charges would be of less critical importance. The statement of charges and interest in terms of their equivalent in true simple interest rates, and thus in clearly understandable terms, would make possible effective freedom of choice among competitors, a principle that is traditional in our free enterprise economy. We depend upon competition to protect consumers against exploitation in many fields of goods and services, but competition can perform this function only when all factors are expressed in clear and comparable terms.

#### Amendment of Small Loan Act

Ten of the Committee's twenty-three recommendations related to proposed amendments to the small loan law. Most of these are recommended unanimously and would serve to facilitate and strengthen administration and operation under the law. One recommendation - to prevent two loans being granted to one borrower, one of which is from an Industrial Loan Company, and one of which is from a Small Loan Company with substantially the same ownership, management or control as the former - is aimed at an abuse which should be corrected and I urge that legislation be enacted to that effect.

The majority of the Committee further recommends that the ceiling on loans under the Small Loan Act be increased from the present \$300 to \$600 and that the present maximum interest rate of 3 per cent per month be lowered to 2-1/2 per cent on the first \$300, and 1-1/2 per cent on amounts over \$300. I concur in this recommendation.

Amendments to  
Motor Vehicle Installment Sales Act and  
Industrial Loan and Thrift Act

The Committee made six recommendations for amendments to the Motor Vehicle Installment Sales Act, all of which I believe are worthy of your consideration, and one of which is already well on its way through the legislative process. Two Committee recommendations relating to corrective amendments to the Industrial Loan and Thrift Act have also been introduced.

Regulation of Retail Time Sales

Installment sales, except for motor vehicles, are at present subject to no special regulations in Minnesota. The Study Committee on Consumer Credit studied this problem at length, and recommended a bill to regulate installment and other time sales of all goods. I believe that such a law could correct many abuses that now exist and would be of real benefit to the consumer provided the maximum permissible rates are kept as low as possible and provided there are adequate provisions for administering and enforcing the law. I do not believe that penalty provisions alone offer sufficient protection to the consumer, because he will rarely be able to afford a lawyer for the purpose of pressing any complaints he might have. New York's experience with similar regulations demonstrates that the real protection to the consumer lies in the fact that the Banking Department has been given broad powers to investigate complaints relating to any retail installment sales transaction, and also to make inquiries on its

own initiative. I strongly urge that any Minnesota legislation to assist retailers in making more regular and adequate provisions for installment sales and finance charges should have provisions similar to those in New York for the protection of the consumer.

#### Credit Life Insurance

The Committee report points out that credit life insurance is a phenomenon of the post-war era and that it serves a desirable social purpose for the borrower and a security purpose for the lender. However, the method by which it is usually provided brings about a "competition in reverse" to the detriment of the consuming public. Therefore I urge that you enact the Committee's recommendation for legislation authorizing regulation of rates and the sale of credit life insurance, and that such legislation also provide for full disclosure of the cost of credit life insurance and the nature of the coverage.

#### Debt-Adjustment and "Pro-Rating"

Finally, I would point out that the Committee's report shows that the abuses and exploitation that arise in the field of debt adjustment, debt pooling, and pro-rating are so serious that effective regulation to eliminate such abuses should be enacted.

#### Office of Consumer Counsel

Credit is only one aspect of consumer interests. Scattered throughout many government agencies are various functions designed to protect the consumer. Regulations are provided to insure honest weights and measures, to prevent the contamination of food, to combat fraud in the sale of securities, and to safeguard the public in many other ways. The licensing of those who perform services that require special training helps to insure that those who engage in numerous professions and occupations have the



appropriate qualifications. In spite of all these protective functions, there is no one agency whose sole purpose is to represent the consumer interest. The public is often unaware of the protection that is available under existing law.

I recommend that you create the office of a Consumer Counsel, charged with responsibility to advise on legislative and administrative matters of interest to consumers and to coordinate and promote existing consumer services. Such an office has had marked success in the State of New York, and is now being considered in several other states. I propose that the Consumer Counsel be appointed by and responsible to the Governor, since his duties will necessitate close cooperation with many existing departments, divisions and agencies and yet will not fall under any one of them. I have already incorporated in the budget I presented to you the item of \$20,000 a year to provide for the necessary staff and expense for such an office.

I am confident that consumers and business would both gain many times more than the cost of such an office, and that the net results would be higher standards and better living.

#### Atomic Energy Board

There is one field directly concerned with the protection of the public interest that is so new and so specialized that I have already recommended the creation of a special body - the Atomic Energy Board. A bill has already been prepared to establish this board "to serve the public interest . . . to secure the fullest possible advantages for the state of Minnesota and the people thereof from knowledge and technology developing in the fields of nuclear and atomic energy, to promote the industrial utilization of nuclear and atomic energy and related phenomena within this

state, to protect the people of the state of Minnesota against the hazards of ionizing radiation and other hazards to health and physical welfare arising from the utilization of nuclear and atomic energy and related phenomena, and to promote and disseminate the greatest possible knowledge and information with respect to these matters."

At this time I should like to request that you take action on this bill as soon as possible. There is much that such a board could begin to do almost immediately, and prompt action by the state of Minnesota could secure for us advantages that would not otherwise accrue. Funds are available from the Atomic Energy Commission and the U. S. Public Health Service for essential research on ways by which we might decrease any possible radiation hazard, for example, and the Atomic Energy Board could, immediately after its creation, plan for such research and apply for such grants. Prompt action on this measure can keep Minnesota in the lead it has already acquired by the excellent work of the Atomic Development Problems Committee.

#### Conclusion

Many of the other measures you are considering are of major importance to consumers, and I know that you will consider them in the public interest. Those emphasized in this message I regard as meriting your special attention.