

The Hongkong and Shanghai Banking Corporation.

(INCORPORATED IN THE COLONY OF HONG KONG)
THE LIABILITY OF MEMBERS IS LIMITED TO THE EXTENT AND IN MANNER
PRESCRIBED BY ORDINANCE NO. 6 OF 1929 OF THE COLONY.

ALL LETTERS TO BE ADDRESSED
AND
REMITTANCES MADE PAYABLE TO
"THE HONGKONG & SHANGHAI BANKING CORPORATION"
NOT TO INDIVIDUALS.

P. O. Box 353
Kobe, Japan

7 November 1955

Mr. Henry Hazlitt
"Business Tides"
Newsweek
Newsweek Building
Broadway and 42nd Street
New York 36, N. Y. U.S.A.

Dear Mr. Hazlitt:

I was very struck with your frank, clear, and concise report entitled "A Flood of Debt" in this week's edition of your journal.

In such a confined space I realise that all you can do, ~~for~~ such an important subject, is to provide an appetizer.

Would it be possible for you to continue with this subject--so vital to everyone living at this moment--in another issue and find room to answer some of the questions given on the attached sheets?

Some of the questions admittedly I have tried to answer. Please put me right if necessary.

If you can't find the room in Newsweek to reply, I shall appreciate any comments you may have to make to me direct.

Yours truly,

Cyril Bell

Reference NEWSWEEK, 7 November 1955--"Business Tides" (A Flood of Debt by Henry Hazlitt.

The questions which need answering are these:

- (1) What percentage of consumer credit granted in the year ending, say, 30 June 1955 was granted for the purchase of
 - (a) automobiles?
 - (b) houses?
 - (c) radios, TV sets, refrigerators, automatic washing machines and other modern household appliances?
 - (d) holidays--in the way of travel and hotel expenses?Is there any other category of goods or services which rated high in credit granted to consumers?
- (2) What percentage of the total cost of automobiles sold in the year ending, say, 30 June 1955 was paid for in hard cash? Of the amount granted in credit how much percentage will have to be paid back in each of the next 3 years?
- (3) How much of the consumer credit granted during the same period was granted by
 - (a) commercial banks?
 - (b) the producing companies, their sister corporations or their agents? (I.e. How much was financed through relative trades themselves and how much directly by the banks?)

In each of these two cases how have their interest rates, on the average, responded to the various increases in the Federal Reserve discount rates?

- (4) Where the cost of new credit has increased what effect has it had on curbing the demand for credit?
- (5) Where the increased cost of credit has not had any effect on the demand is it not possible that subconsciously the consumer's attitude is this:

"Because I can borrow such a large amount of capital I can also find a way of borrowing the interest (or at any rate the increase in the interest) to be charged on that capital. This interest, after all, is very small compared to the capital amount, and if my credit is good enough for the capital amount it is also good enough, in an emergency, for the interest. It may even be good enough for next year's instalment or at least part of it."

(Admittedly this does not appear to be sound economic reasoning--but can one expect sound economic reasoning from such a large cross-section of the community under the superb system of high pressure salesmanship which seems to be part and parcel of every business organisation in the U.S.A. I trust that I shall be proved to be wrong in this assumption.)

- (6) If this situation is the case, surely it will not solve the problem by merely increasing the cost of credit? Is it not possible that, the only solution is for the actual amount of credit allowed to be granted to consumers to be decreased?

- (7) What chances are there of the government imposing such consumer credit restrictions during the next twelve months--always bearing in mind the forthcoming presidential elections?
- (8) Lastly, a lot of people have drawn comparisons between the financial situation in the USA during the years 1929 and 1955. What I think we should know now are the vital differences between the two situations.

Admittedly there are differences, such as the credit restrictions on the stock exchange and with banks, but would it be possible to summarise these and add to them any other differences? It would certainly help to crystalise the situation.