CONSUMER CREDIT IN AUSTRALIA DURING THE 20TH CENTURY

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Consumer credit in Australia during the 20th century

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Abstract

This article surveys the growth of consumer credit in Australia during the 20th century, particularly after World War II. Until the 1970s, the regulation of Australia's financial market caused formal consumer credit to be provided mainly by finance companies under hire-purchase contracts, largely for the purchase of cars and household durables. Deregulation of the financial market since the 1960s allowed banks to gain a dominant share in the market for personal loans. Quantification of long-term trends is difficult, but broad estimates suggest sustained growth in per capita indebtedness during 1945-2007.

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Introduction

Living standards improved considerably in Australia during the 20th century. Households were increasingly able to overcome liquidity constraints and purchase an ever greater number and range of consumer durables, including furniture, refrigerators, washing machines, radios, televisions and cars. These were often items for which they lacked finance in terms of current income and/or accumulated savings. Still, households were able to purchase them, due to the increasing availability, accessibility and affordability of consumer credit.

Formal consumer credit grew quickly in Australia after World War II as a major source of finance for the purchase of goods and services for which to households and individuals lacked funds. Per head of the population, the level of consumer debt amounted to A$233 in 1950, increasing more than tenfold to over A$4,500 in 2007 (in 1989/90 prices). Just after the war, hire-purchase companies were about the only source of formal consumer credit. Today, anyone wishing to borrow money for the purchase of goods and services can choose from a wide range of financial institutions for a loan on conditions that suit the borrower best.

Despite its apparent significance in facilitating the postwar growth of consumer demand for durables, and despite a growing body of literature on the development of

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consumer credit in other countries (Olney 1991, 86-134; Calder 1999; Gelphi and Julien-Labruyere 2000; Scott 2002; O'Connell and Reid 2005), there is no overview of the long-term development and the economic relevance of consumer credit for Australia. For instance, Merrett (1997, 1998) largely ignored it in his excellent overview of the development of capital markets in Australia, possibly because it was a minor part of those markets. A major problem in studying this topic is that the sources on consumer credit in Australia are very disparate. Consistent statistical data are only available since the 1980s, which were used in recent publications. Griffiths (2000) discussed changes during 1980-96 to argue that the growth of consumer credit is not in Australia's long-term economic interest as consumers experienced increasing debt-servicing problems. The Reserve Bank of Australia (RBA 2003) gauged the growth of household indebtedness during the 1990s, to conclude that nearly all it was driven by housing debt due to lower rates of interest and inflation. But how do recent trends compare to past trends and is the uptake of consumer credit in recent years unprecedented and concerning?

This article seeks to offer a historical overview of the development of the supply of consumer credit in Australia, by drawing on an array of disparate sources. It seeks to establish the circumstances that facilitated the emergence and growth of financial firms that specialised in consumer credit, particularly finance companies. The next section discusses the main government regulations impacting on the consumer credit industry in Australia and establishes the regulatory context in which the industry developed. This is followed by a brief section that identifies the broad quantitative patterns of the development of consumer credit. The remaining sections then discuss the growth of the industry before World War II, during the 1940s-1970s and since the 1970s. This article focuses on supply factors. A fuller account should also consider demand factors, but these are difficult to capture with the kind of information on which this article is based. Consequently, the article establishes foundations for further research.

Forms of formal consumer credit and their regulation

The term 'consumer credit' covers a range of different types of formal and informal credit. Formal credit to individuals and households is generally referred to as 'household debt' and includes housing loans. The latter will not be discussed in this article, which seeks to focus on lending for the purpose of financing the purchase of consumer goods and services.[2] Informal credit will also not be discussed, as preciously little information is readily available.

[2] There are two reasons to not to discuss housing loans. Firstly, they cannot be regarded as consumer credit, because the purchase of a house is considered an investment in fixed assets, rather than consumption. Secondly, Merrett (2000) discussed the history of housing loans in Australia. It should be noted that the overall trend in personal debt was set by changes in housing loans. Housing debt increased from an equivalent of 20% of gross household income in 1978 to 47% in 1995 and 101% in 2007. Figure 1 below shows that consumer credit remained less than 20% until 2005.

Until the 1980s, instalment credit for retail sales was the dominant form of formal consumer credit in Australia. This category covered all finance schemes where a consumer obtained goods for a small down payment, and signed a contract to make repayments of the outstanding amount in the form of regular – typically fortnightly or monthly – predetermined instalments. The instalments were paid directly to the retailer, or to the finance company, possibly through authorised agents or regular collectors. Instalment credit included hire-purchase, consumer and chattel mortgages, time payment, cash orders, budget accounts and personal loans to finance the purchase of consumer goods. The main difference between these categories of instalment credit concerned the degree of security taken by the lender and the level of protection that the scheme afforded the borrower. Goods purchased on instalment plans invariably served as a security for the contract. If the borrower defaulted, the goods could be seized (if recovered) and sold, subject to the consumer credit laws in the states.

Hire-purchase (or conditional sale) was long the most important category of instalment credit. It allowed the purchaser to take possession of the goods at the signing of the contract. Legal ownership of the goods was retained by the lender until the final instalment was paid. Generally, but not necessarily, a down payment was required. Although transactions on instalment plans involving finance companies were generally categorised as credit, they were not formally considered to be money lending in a strict sense (Chancellor *et al.* 1941, 6). A buyer provided an initial payment to the seller and signed a contract containing a promise to pay the outstanding balance plus interest in regular instalments. The seller then sold the contract to a finance company, which henceforth enforced the contract signed by the buyer. Hence, the seller did not borrow money because he sold an asset (the buyer's promise to pay) to the finance company. The buyer did not borrow money, but rather issued a promise to pay in exchange for the use and possession of the good after payment of all instalments. Legal judgements in the United Kingdom (UK) and Australia confirmed that the sale of goods on instalment credit could not be regarded as a loan. The difference between the cash price and the higher price charged for goods sold on an instalment plan, was not considered interest but a higher price for payment in the future than for immediate payment. Such findings freed the financiers of instalment credit from the need to obtain a licence or to comply with the detailed requirements, including the usury provisions, in the *Moneylenders Acts* of the Australian states.

Since the late-19th century, various other legal judgements in both the UK and Australia regarding hire-purchase contracts established other anomalies (Duggan and Lanyon 1999, 7-9). For instance, a hire-purchase transaction did not involve a bill of sale. While other transactions would be void if not registered, this was not the case with hire-purchase. The hirer in a hire-purchase transaction was also not a buyer, because the hirer could terminate the agreement at any time. In both these cases, the *Bills of Sale Acts* and *Sale of Goods Acts* of the Australian states did not to apply.

The fact that hire-purchase agreements escaped these *Acts* added to the attraction of this form of credit for the financing of new consumer durables. Finance companies were not interested in lending money to consumers as these *Acts* would then apply to the transactions. *Hire-Purchase Acts* were introduced in the Australian states since the 1930s. They addressed a range of factors concerning hire-purchase lending, such as claims made by finance companies in advertising, concealed charges, and the calculation of the effective rate of interest. The *Acts* regulated the formation and terms of agreements, the right of the hirer to terminate or to complete early and the process of repossession (Else-Mitchell and Parsons 1968). Consequently, the *Acts* forced finance companies to meet minimum standards of product disclosure.

Like in the UK (Taylor 2002, 144), deficiencies in the *Hire-Purchase Acts* became clear during the postwar years (Molomby 1972, 33-35). The states amended the *Acts*, and also initiated publicity campaigns to alert consumers to their rights. However, the gradual deregulation of the financial market in the 1970s allowed banks, which were excluded from the *Hire-Purchase Acts*, to increase their lending to consumers. Banks in particular could offer more flexible credit options, particularly personal credit. As a consequence, instalment credit waned and *Hire-Purchase Acts* were repealed in most states and territories as they adopted *Credit Acts* in or after 1984 (Cavenagh and Barnes 1988, 24). The new state acts brought the number of allowable types of consumer borrowing back to a uniform three types. Even so, trading banks, credit unions and building societies were largely exempt from these *Acts*, despite the fact that they supplied about 80% of consumer credit in Australia by 1986.

This deficiency was only addressed with the adoption of the *Consumer Credit Code 1996* and legislation that is now almost uniform across the states (Duggan and Lanyon 1999, 96-113). Differences in types of consumer credit continued to exist, but all institutions extending such credit are now subject to uniform requirements, *e.g.* regarding product disclosure. Although imperfect at times and varied across Australian states, these legislative changes imposed standards on the operations of institutions extending consumer credit and helped to mitigate uncertainty and perceived risk among customers.

Time trends in consumer credit

To sharpen the discussion, this section presents a quantification of trends over time. The appendix of this article explains that the available statistical data on consumer credit in Australia do not lend themselves to easy comparison over time. Data were collected by different institutions with different purposes and definitions in mind. Figure 1 shows that outstanding hire-purchase balances were the equivalent of about 2.5% of total gross household income in the late-1930s, about the same as in the UK (Scott 2002, 197). Until 1959, the expansion of instalment credit, particularly hire-purchase credit by finance companies and retailers, explains the rapid growth of consumer credit uptake. From 1960, other forms of consumer credit provided by other institutions started to play a bigger role. The main other form of credit that increased in significance was personal credit, in the form of bank overdrafts or unsecured personal loans, and later credit cards. Such loans were increasingly offered by finance companies, since 1963 by savings banks, and since 1967 by trading and savings banks and later also by other financial companies, such as building societies, credit unions, and insurance firms. Figure 2 shows that until 1975 finance companies provided the bulk of consumer credit. After 1975, the trading banks and savings banks gradually usurped their role.

Figure 1 reveals that outstanding consumer credit remained at the equivalent of about 15% of household income during 1960-1995, rising only after 2005 to over 20%. The official RBA estimates show a significant decline during 1986-1994, which was most likely caused by the significant increase in the real rate of interest (interest rates less the rate of inflation). Real interest rates were at low levels until the central bank drove them up significantly during the second half of the 1980s, before decreasing again during the 1990s.[3] In addition, real household incomes increased at higher rates during the 1980s and 1990s than ever before, which reduced the ratio shown in Figure 1.

Figure 3 shows a more gradual growth of consumer credit uptake in per capita terms during 1950-85 than in Figure 1. This is a consequence of the fact that the growth of per capita household income in 1989/90 prices accelerated significantly after 1960s, particularly during 1960-75, which was a period of high economic growth and very low unemployment rates.

Consumer credit before World War II

Changes in the supply of consumer credit are best understood as a consequence of, in first instance, developments in the formal financial sector. The most significant changes took place after World War II, albeit on the back of accumulated experience with formal consumer credit during the interwar years.

Before World War I, consumer credit in Australia was most likely largely informal. Except for the purchase of houses, trading banks were not interested in lending to individuals and households, certainly not in extending unsecured personal loans. This was a time when most people in Australia did not have bank accounts, because their savings were only marginal. Retail banking was largely the prerogative of the middle and high-income earners. Personal credit in the form of an overdraft was only granted to high-income customers with the required integrity and financial standing.

Other financial institutions, such as mortgage banks and state savings banks were also hardly involved in extending consumer credit, as their purpose was to extend loans respectively for housing and to state governments. House mortgages were most likely the most important form of formal lending to households and individuals. Apart from borrowing from family and friends, the majority of the population would have had access to the following forms of consumer credit: pawnbroking, formal and informal

[3] For example, the real interest rate for bank overdrafts and unsecured personal loans from banks was only 2 to 3% until 1981, rising to over 15% in 1990, before falling to 8 to 10% during 2000-07 (calculated from RBA data).

borrowing from moneylenders, borrowing from friendly societies such as credit co-operatives, and credit by merchants or service providers that was often re-payed in instalments.

It is not possible to substantiate the degree to which pawning was a source of credit in Australia. In the 19th century, most Australian colonies adopted *Pawnbrokers Acts*, starting with Queensland in 1849 (Cavenagh and Barnes 1988, 5). Such *Acts* have been in force since, which suggests that this form of credit remained significant, possibly in particular for low-income earners, as was the case in the UK (Calder 1999, 45).[4] There is also no evidence of an impassioned anti-usury movement in Australia, which may suggest that informal and formal money lending occurred on terms agreeable to consumers.

Credit cooperatives (later called credit unions) provided consumer credit. They were non-profit organisations that collected regular contributions and deposits from their members. The members would have a mutual interest, such as belonging to the same trade union or religious group, working for the same employer (*e.g.* a government department), a profession (*e.g.* teachers or the police force, or living in the same community. Credit unions used to lend only to members. Their limited assets reduced their ability to lend, and their local scope long reduced their reach. Only in the 1970s did they start to overcome these restrictions by forming national organisations that were able to carry out functions such as managing credit card schemes and making electronic funds transfer facilities (Lewis 1996).

Retail merchants and service providers of all sorts (corner shops, variety chain stores, department stores *etc.*) extended credit to their customers. The available details are very sketchy, but accounting records suggest that these forms of credit existed in Australia already in the early 19th century (Goldberg 1952). This concurs with the well-documented development of this form of credit in the United States (US) and the UK (Calder 1999; Harris *et al.* 1964). The smaller outlets may have extended credit based on trust and personal relations. The larger retail outlets would have done so on the basis of formal contracts that most likely took the form of instalment credit – with a down payment – supplied for the purchase of large consumer durables, such as furniture, carpets, beds, pianos, sewing machines and other high-priced durable goods.[5] Retailers may also have sold their goods under the cash order system – or check trading as it is known in the UK (Johnson 1985, 152-54; Taylor 2002; O'Connell and Reid 2005) – which involved an intermediary firm, such as Australian Cash Orders or Cash Orders (Amalgamated) in Sydney, that paid the retailer for the goods and had the customer repay the principal in instalments plus interest.

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4 There is no historical study on pawnbroking in Australia. Based on the accounts of Tebbutt (1983) and Johnson (1985, 165-88) of the UK, the existence of pawnbroking legislation in the Australian colonies/states (see below), Caskey's (1991) assessment of the situation in the US around 1990 and the rapid expansion of franchises of Australian firm Cash Converters since 1984, we may conclude that this remained a significant form of credit.

5 Kent (1985, 2-3) shows a hire-purchase account statement involving a piano sold in 1886 in Melbourne.

Retail credit is likely to have continued after World War II, until small independent retailers started to give way to chain stores and supermarkets, and credit for consumer durables was increasingly contracted to specialised firms such as cash order and finance companies (see below). Although widespread, the total amount of instalment credit extended by retailers themselves may have been limited, as it reduced their working capital and/or required them to have access to bank overdrafts, unless goods were sold under the cash order system.[6] On the whole, the amounts involved may have been small in relation to total retail spending and total household expenditure.

Particularly in the US, the use of formal instalment credit increased rapidly since the late-19th century with the increasing consumption of large consumer durables. The uptake of instalment credit gathered pace with the diversification of consumption of a wider range of new durables such as refrigerators, washing machines, vacuum cleaners, phonographs, encyclopaedias and particularly the automobile. By 1915, most formal instalment credit in the US was extended for the purchase of cars. The popularity of this form of credit stemmed from the fact that the goods themselves could serve as security to the lender, thus reducing risk compared to an unsecured personal loan.

Starting with the Singer Sewing Machine Company in 1856, many US producers actively encouraged the supply and uptake of instalment credit, either through their own retail outlets, or through retailers that were dealers. By World War I, a wide range of finance companies had been established that specialised on extending instalment credit, particularly hire-purchase credit, to consumers for the purchase of durables. They would use their own assets for that purpose, rather than an accumulation of small deposits as the credit unions did. Depending on the scale of their operations, the finance companies cooperated with producers, wholesale companies, department chain stores or individual retailers or car dealers. For instance, small local companies cooperated with local car dealers, while large companies worked with car wholesalers and usually had the exclusive right to offer hire-purchase credit for a particular brand of cars. By the 1920s, instalment credit was already well-established in the US (Seligman 1927 vol.1, 14-54). Particularly car companies, but also other producers of mass-produced large consumer items cooperated with specialised finance companies (Olney 1991, 106-7).[7]

The role of the finance companies in the financial sector increased in tandem with the consumption of consumer durables. The purchase of durables increased, because of rising average incomes and the growth of the group of middle-income earners, and also because of the steadily declining real prices of durables due to the spread of mass

[6] The popular Australian 'lay-by' is a form of instalment credit, particularly conditional sale. Unfortunately, nothing is known about the extent to which lay-by was used throughout the 20th century.

[7] As mentioned in section 2, hire-purchase was only one of the instalment credit schemes popular in the US, where chattel mortgages and contracts of conditional sale were also widespread, unlike Australia and the UK. American finance companies operating in Australia took to hire-purchase as a means of avoiding the registration requirements associated with *Bills of Sale Acts* in the Australian states (Fitzgerald 1988, 370).

production techniques that reduced average production costs. It has been argued that the mere availability of instalment credit in turn encouraged the consumption of durables, as there was no need to accumulate savings first and postpone the purchase. Only the deposit required the availability of savings. In this view, the mere availability of instalment credit thus furthered the development of mass production techniques that led to lower prices and better quality products (Maskell 1964, 2).

Recent studies confirm that similar developments characterised the development of consumer credit in the UK, where by the 1920s instalment credit was available and used for purchases of furniture, pianos and sewing machines (Johnson 1985, 155-57; Scott 2002, 200; O'Connell and Reid 2005). As in the US, the increasing consumption of large and relatively expensive consumer durables, particularly the automobile, was the main factor driving this process in the 1920s and beyond, after the country had overcome the austerity of World War I and its aftermath.

Similar developments took place in Australia, where in the 1920s enterprising individuals, such as the brothers Lewis and Arthur Davies in Sydney and Ian Jacoby in Perth, realised that extending instalment credit for car purchase offered good commercial opportunities. The Davies brothers had the Australian franchise to import Ford cars from the US. They started hire-purchase operation in 1921, which in 1925 was incorporated as the Australian Guarantee Corporation (AGC, now General Electric Credit Line). AGC grew rapidly, because it had the franchise to finance purchases of Ford cars (AGC 1975). Jacoby used his own capital to extend instalment loans after he noticed that he could get flat interest rates of 12.5% on new cars to 15% on used cars, and effective returns of nearly twice as high.[8] This was on top of the fact that lending would be with the security of full recourse to the car dealers in case of default (Fitzgerald 1988, 366).

Another impetus came from the US. Subsidiaries of American finance companies stimulated the spread of instalment credit in Australia. For instance, the General Motors Acceptance Corporation (GMAC), itself a wholly-owned subsidiary of General Motors, established a subsidiary to finance the sales of General Motors products, particularly Chevrolet cars. The US Industrial Acceptance Corporation (IAC) finance company established a subsidiary company in Australia in 1926. This venture (now Citicorp Australia) was sold three years later and continued as a fully-owned Australian company.

These finance companies cooperated with wholesale distributors (if they could obtain an exclusive franchise) or retailers of consumer durables, particularly cars and furniture. In essence, they provided hire-purchase finance agreements to buyers of such durables, although they legally acquired the goods from the retailer and then hired

[8] The flat rate is applied to the original amount of the debt. The original debt is reduced by regular instalments over the life of a contract. The effective rate of interest therefore rises and can at the end of the contract reach a level nearly double the flat rate. The effective rate of interest can be calculated as follows: (flat rate $\times$ 2 $\times$ number of instalments) / (number of instalments + 1). If the flat rate is 10% per year for an amount of $100 that has to be paid back in 24 instalments over two years, the effective rate is 19.2%. See Olney (1991, 115-8) for a discussion of the higher effective rate.

them to the customers. A range of other finance companies was established, such as the Automotive Finance Company of Australia (1923), Associated Securities (1926), Mutual Credits (1932), Producer and General Finance Corporation (1935), and Trade Credits (1936). In some cases, the finance companies bought or established car or furniture dealerships themselves, in order to create finance business. In other cases, finance companies engaged in wholesale financing, in which case they supplied finance to retailers who could then carry stock, even though legal ownership of the goods remained with the finance company until the loan was repaid.

Unlike the US, quantitative evidence on the expansion and activities of finance companies in Australia is not readily available. These companies remained largely unregulated and were not required to report their activities to a supervisory state authority.[9] It appears that these firms languished in the early 1930s before bouncing back later that decade (Chancellor *et al.* 1941, 6). The 1935-37 Royal Commission on Australia's monetary system dismissed the operations of the hire-purchase companies in two discursive paragraphs and noted that the volume of their activities could not be quantified (Napier 1937, 168). This did not mean that these activities were insignificant to consumers. The commission's comments related to the fact that finance companies depended not just on shareholder capital and own reserves, but also on overdraft facilities with the trading banks (estimated at 42% of their loan funds, Chancellor *et al.* 1941, 9). The commission therefore expected that the activities of such companies were sufficiently influenced through the control over such overdrafts by the central Commonwealth Bank, which was the main issue of the investigation.

The general impression was that the interest rates charged by hire-purchase companies were high. In response, the Commonwealth government established a Board of Inquiry into Hire Purchase and Cash Orders in 1941. The board's assessment was relatively superficial. It noted the importance of the industry, but offered only general descriptions of the situations in Australia and the USA. It concluded that the interest rates were 'not unreasonable' given that instalment credit administration, collection expenses and bad debts almost inevitably made it a costly form of credit relative to the average amount borrowed (Chancellor *et al.* 1941, 17). It is difficult to gauge exactly what the different forms of consumer credit were used for. Excluding producer-oriented hire-purchase, it appears that in 1938-40 33% of new cars and trucks, 25% of used cars and trucks, 19% of electrical appliances (including refrigerators and radios), 15% of furniture, and 2% of pianos were financed under hire-purchase agreements (Chancellor *et al.* 1941, 18-20).

The activities of finance companies decreased during the war years (1940-45). Imports and local production of motor vehicles and other consumer durables, which

[9] See Olney (1991, 86-134) for prewar quantification in the US. Quantification is also difficult for the UK in the interwar years. However, there is much more secondary literature available, in part generated by the 1891 Hire Traders Protection Association (later the Hire Purchase Trade Association) and frequent debates in British Parliament leading up to the *1938 Hire-Purchase Act*, but also the archives of individual finance companies. Several historical studies offer quantification for the UK, including Scott (2002) and O'Connell and Reid (2005).

formed the bulk of the hire-purchase business, were restricted. Moreover, the banking and monetary system was placed under strict controls (Merrett 2002, 276). Limits were imposed on bank lending and on interest rates charged by banks and as a consequence the bank overdrafts of hire-purchase companies were restricted. During the war years, finance companies had to rely more on shareholders' funds. The largest companies, IAC and AGC, therefore managed to consolidate their position as the leading finance companies in Australia by the end of World War II.

The Hire-Purchase boom, 1940s-1970s

As soon as industrial companies resumed production of consumer durables after the war, and imports of consumer durables recommenced, the finance companies increased their activities. They developed rapidly in the late 1940s and 1950s. The outstanding instalment credit advances increased by a factor of 30 from A$39 million in 1947 to A$1,157 million in 1960, compared to an only three-fold increase in the advances made by all trading banks from A$813 million to A$2,585 million (White 1973, 310-11). Consequently, by 1960 the advances by finance companies were one-third of all formal financial advances in Australia.

An important reason for this rapid development was that Australia came out of World War II with a tightly regulated banking system. The controls on the system were continued under the *1945 Banking Act* with the aim of managing monetary expansion in order to moderate fluctuations in the trade cycle. Banks were not allowed to choose the amounts they lent, or for what purpose. Interest rates on both loans and deposits were set by the central bank (Merrett 1998, 137-38). The regulated financial environment reduced competition among banks. Consequently, there were generally few reasons for the banks to take an interest in retail financing. But the *Banking Act* did not apply to finance companies, so that specialised hire-purchase companies could develop outside the regulated financial sector. Consequently, the hire-purchase sector increased quickly and by the early 1960s they were sometimes referred to as Australia's 'second banking system'. The fact that these companies remained unregulated is a major difference with the UK and US. In those countries, regulation allowed the monetary authorities to impose conditions on entry into the hire-purchase market and on lending activities in order to restrict lending when perceived necessary.

The lack of control meant that entry barriers into the consumer credit market in Australia were relatively low. A range of new companies was established, such as Associated Acceptance (1950), Mercantile Credits (1950), Pacific Acceptance (1950), General Credits (1953), Custom Credit Corporation (1953), Latec Investments (1953), Motor Credits (1954), Finance Corporation of Australia (1954), Alliance (1956), Commercial & General Acceptance (1958), and Mutual Acceptance (1958). There were numerous other companies of a similar nature that operated on a smaller scale. For instance, the Royal Automobile Club of Victoria established a hire-purchase department that extended loans to its members. In addition, alliances emerged between finance companies, insurance companies and trading banks, generally of an interstate nature. Such alliances often heralded the diversification of the activities of finance companies away from hire-purchase for especially cars in the 1960s.

By 1960 there were over 1,500 finance companies, including 50 companies listed on stock exchanges in Australia. All these companies competed for customers by changing the various conditions of offered credit. Apart from interest rates, the conditions of the loans included the minimum percentage deposit required, the maximum length of the contract, and the possibility of taking out credit with car insurance as a package. These conditions varied over time and from company to company. They depended on such factors as the expected rate of depreciation of the goods, the borrower's credit risk, and the guarantee against bad debts given by the retailer or dealer to the finance company. Competition was fierce and over time consumer credit tended to become easier and cheaper. Minimum down-payments were lowered and repayment periods were extended. Loan conditions were favourable in Australia compared to other countries. An international comparison showed that only in Australia were consumers given 4 or 5 years to pay off a refrigerator or TV set (Runcie 1969, 11, 33).

The offer of credit on conditions that favoured customers was an important reason for the rapid spread of hire-purchase credit. Another reason was that most public gas and electricity utilities subsidised the hire-purchase sales of appliances to stimulate demand. In addition, many retailers used low-interest hire-purchase finance as a sales promotion device.

The success of the finance companies triggered the interest of the banks. Already in 1946, the Commonwealth Bank established its Industrial Finance Division. Its initial aim was to supply hire-purchase credit to finance small businesses that could not readily obtain funds from traditional sources. However, the division also provided hire-purchase credit for consumer durables until late 1951. It quickly moved in on IAC and AGC by offering hire-purchase credit for new cars at a 4% flat rate compared to the 6.5% charged by the others (Fitzgerald 1988, 373). In the 1950s, the management of other banks also decided to take an interest in consumer finance. For instance, the English, Scottish and Australian Bank established a department for hire-purchase operations in 1953, which two years later became the Esanda finance company (Merrett 1985, 220-22, 231-32). UK finance company Lombard purchased the Consolidated Finance Corporation (Producers and General Finance Corporation until 1945) in 1958. Table 1 shows that by 1960 all major trading banks had acquired a significant interest in a hire-purchase company.

Banks established links with finance companies for several reasons (Harris *et al.* 1961, 165; Runcie 1969, 60-61; Holder 1970, 915-16; Blainey and Hutton 1983, 240-41, 251). A major reason was that hire-purchase companies make handsome profits in the 1950s of on average 16% of shareholders' funds (Scott 1974, 398). In addition, government credit policy reduced the new activity that trading banks could develop, while the finance companies were relatively free from such official controls. Consequently, banks could use the returns on investment in a finance company to offset squeezed earnings in other activities caused by the central bank's monetary policy. In addition, hire-purchase agreements could be sold through the networks of bank offices, where the public could also make repayments.

Finance companies were interested in linking up with banks, because it enhanced their credit rating and status in their efforts to raise new funds. They were able to use a branch network of a bank for payments to retailers and for instalment collections. This added substance and respectability to the use of hire-purchase facilities at a time when hire-purchase credit was still an issue of public controversy.

Table 2 shows that, after initial success, the Commonwealth Bank's share decreased during the 1950s. The bank deliberately kept its hire-purchase advances at a constant level as an anti-inflationary measure. In 1956, it stopped financing the retail sales of motor vehicles and focused on the hire purchase of industrial and farm equipment. This allowed IAC and AGC to consolidate their position in the hire-purchase market, even though they were joined after 1954 by the Custom Credit Corporation (CCC, now National Australia Bank).

During the 1950s, when the number of registered cars doubled in Australia, finance companies emerged and expanded on the back of the boom in the sales of cars and household durables. Loans for cars attracted the lowest interest rates, because the risk was the lower than with household durables. Cars could easily be repossessed and readily sold in the burgeoning market for used cars. About two-thirds of the credit advanced by hire-purchase companies was used for the purchase of motor vehicles, and one-third for the purchase of household goods. In terms of numbers of agreements, one-third involved new or used motor vehicles, and two-thirds household goods, particularly refrigerators, washing machines, furniture and, increasingly after the introduction of television in 1956, TV sets.[10] The difference in distribution reflects the lower average value of household goods; A$200 compared to A$1,400 for motor vehicles. A small proportion of hire-purchase agreements was used for the purchase of plant and machinery, particularly agricultural equipment.

Gallup polls in 1951 and 1953 noted that 43%, respectively 35% of Australian households intended to purchase a major new household durable, particularly carpets, refrigerator and washing machine.[11] Despite moralistic opposition to hire-purchase in the 1950s, a 1956 poll indicated that by far the majority of households purchasing durables did so on the basis of instalment plans: washing machine (68%), vacuum cleaner (78%), sewing machine (81%) car (84%), refrigerator (83%), furniture (81%), carpet (76%), TV (82%), radio (84%).[12] Hence, around 75% of household durables were sold on some form of instalment credit. A 1958 poll noted that 42% of those surveyed had made use of hire-purchase in the last 2 to 3 years, mainly for the

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[10] The available ABS statistics reported the uptake of instalment credit in three categories only – motor vehicles, plant and machinery, and household and personal goods – of which the first and the latter dominated.

[11] Australian Social Science Data Archive (ASSDA) (http://assda.anu.edu.au), Australian Gallup Poll D0080, 30 March 1951, question 4; Australian Gallup Poll D0164, 10 April 1953, question 8.

[12] ASSDA, Australian Gallup Poll D0170, 8 December 1956, question 7.

purchase of a refrigerator, a washing machine, furniture or a car.[13] Another source suggests that about 40% of all new cars, 70% of all used cars, and 75% of household appliances sold during 1950-65 were sold through some form of instalment credit, while during the share of households with refrigerators increased from 30% in 1950 to 95% in 1965, washing machines 20% to 79%, TVs 0% to 89% (AHPFC 1965, 3).[14]

Not all households used consumer credit to the same extent. Gordon (1961) discussed the results of a survey in Newcastle in 1956-57, which showed that the use of hire-purchase increased as family income increased, but that it decreased in the high-income groups. Instalment debt was primarily a middle and upper-middle income phenomenon and was generally associated with young people who were establishing a family. The highest use was found among wage workers. Although 53% of interviewees expressed general approval of hire-purchase, only 10% preferred this form of credit. Bank loans and retailer credit were generally preferred. The survey also found that repossession rates were low. Only 4% of dealers indicated repossession rates of over 2%. Edwards *et al.* (1967) reported the findings of a similar survey in Sydney in 1963, which focused on household finances. The survey found that 53% of households had hire-purchase commitments, particularly young married couples in the lower- and middle income groups with young or growing children.

Such numbers indicate that, as far as this had not been the case before World War II, most Australian households learned to use consumer credit during the 1950s. Default rates were very low, indicating that most households used consumer credit facilities in a responsible manner. This impression contrasts with frequently expressed public concerns about perceived predatory activities of finance companies. Newspaper reports often readily assumed that consumer knowledge of the true cost of obtaining credit was poor, and that retailers and finance companies obfuscated the true cost of hire-purchase. Particularly the discrepancy between nominated flat rates and effective rates of interest, and the fact that the true cost of credit also included *e.g.* establishment and account fees, insurance and stamp duties, may have eluded consumers (Lourens 1971, 11-13).

To finance the rapid expansion of their operations, the finance companies changed during the 1950s from relying on shareholders' funds and bank overdrafts to public borrowing (Downing 1958, 251). IAC was the first company to do so in 1950. Its debentures were readily accepted by the public. Other companies followed, despite the lack of a significant short-term money market in Australia at the time (Low 1960, 48-49). The finance companies could offer attractive interest rates, because they were not subject to interest rate restrictions that kept bank deposit rates low. Consequently, in the mid-1950s about 50% of the funds used by hire-purchase companies (30% for all instalment credit companies) were obtained through public borrowing, increasing to

[13] ASSDA, Australian Gallup Poll D0177, 26 September 1958, question 4.

[14] This source is one of the publications of the Australian Hire Purchase and Finance Conference, now the Australian Finance Conference, Australia's national association of finance companies. It was

75% in the early 1960s (65% for all instalment companies) (Runcie and Burke 1969, 29; Scott 1974, 390-91). The added advantage of public borrowing was that it allowed these companies independence from the central bank's influence over their sources of funds, such as bank overdrafts. The second most important category remained shareholders' funds, which increased in volume after several banks took shares in finance companies, as Table 1 showed.

The rapid expansion of instalment credit and the ability of finance companies to evade the central bank's influence caused public concern for two reasons (*e.g.* Randerson 1955). *Firstly*, the hire-purchase finance sector started to affect the general level of interest rates. Through its increased public borrowings and its growth, the sector attracted deposits away from the banking system.[15] This was at a time when there was agreement that inflation needed to be kept in check through controls on credit in order to provide macro-economic stability. It became clear in the mid-1950s that the finance companies no longer relied heavily on bank overdraft facilities and therefore that they were beyond the control of the monetary authorities. *Secondly*, it was feared that hire-purchase credit could potentially increase demand for durables and therefore aggregate demand to an extent that would increase inflationary pressures.

Concerns about the fact that hire-purchase firms were not subject to interest rate controls and about the possibly inflationary impact of consumer credit resurfaced frequently, accompanied by calls for control over the finance companies (Myers 1961). But the companies continued to operate outside the regulated financial sector. One reason was that the Commonwealth and state governments could not agree on whether hire-purchase was in the power of the Commonwealth (falling under the 'Banking' power given to it by the colonies at Federation) or the power of the states (under the 'Commerce' power). In the Loans Council, the state Premiers considered that the advantages of the growth of consumer credit outweighed the potential economic disadvantages (Shrapnel and Runcie 1955, 6). The availability of hire-purchase credit enabled the increasingly widespread purchase of products that added to the quality of life. Few governments would have wanted to withhold such opportunities from the electorate. Major hire-purchase companies and the government reached a voluntary agreement to limit the growth of outstanding balances to 10% from during 1955-56, while the Commonwealth Bank instituted a ban on further bank lending for hire-purchase (Low 1960, 3, 7; Schedvin 1992, 225, 234). But that did not stop its growth.

The finance companies were widely known as hire-purchase companies, as this used to be their main activity. However, by the 1960s they experienced a downturn in the profitability of hire-purchase operations (Lourens 1971, 15-16). The larger firms started to diversify their activities by offering *e.g.* real estate mortgage finance,

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established in 1958, but state-level predecessors of the association existed since 1951. Its records are at the Noel Butlin Archives Centre at the Australian National University, but remain largely unexplored.

property and modernisation loans, leasing arrangements, business loans and personal loans, as well as factoring and discounting bills of exchange. For example, General Credits expanded into leasing of agricultural machinery, factoring of trade debts and financing property development (Wood 1990, 298, 325), while CCC pursued mortgage lending, leasing and property development (Blainey and Hutton 1983, 293). By the early 1970s, most large finance companies had withdrawn their hire-purchase operations.

Some of the reasons why hire-purchase became less important in the 1960s were increased high levels of stamp duty, and the considerably higher motor vehicle insurance premiums imposed for vehicles subject to hire-purchase agreements. Many large retailers established their own subsidiary hire-purchase operations, because they were exempted from stamp duty on hire-purchase agreements. For example, department store chain Grace Bros ended its 35-year relationship with Mercantile Credits for that reason in 1960 (Kent 1985, 95).

Another major factor was the increased availability of personal loans in the 1960s. Finance companies were joined in seeking personal loans business by a growing number of credit unions, and after 1963 by savings banks and state government banks that were all allowed to introduce limited personal instalment loan schemes. In 1967, trading banks were also allowed to extend unsecured personal credit, which signified a modest start of the process of deregulation of the financial sector that would continue into the 1990s. The greater accessibility of personal credit led consumers to turn down hire-purchase in favour of personal credit and thus avoid having to pay the higher effective hire-purchase interest rates.

Henceforth, trading banks and later also building societies, savings banks, credit unions, general financiers and other financial institutions increased their extension of personal loans in the 1970s. The major trading banks also started to extend credit card advances after 1974, an even more flexible and accessible form of continuous credit (Horne 1984).[16] As far as finance companies continued hire-purchase transactions, they focused on companies rather than consumers.

Consolidation of the consumer credit market since the 1970s

In the 1970s, inflation started to increase and the RBA had to re-address the issue that had been debated in the late 1950s. The problem was that monetary controls were still imposed on banks, including interest rate ceilings on banks' deposit and lending rates,

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[15] Studies in the late-1950s indicated, however, that the borrowing rates of the hire-purchase companies were only marginally higher than the corresponding Commonwealth bond rate. See *e.g.* Harris *et al.* 1961, 163.

[16] Credit cards are not discussed in this article. Despite their rapidly growing popularity, they tended to be used in Australia since 1974 as a convenient payment option rather than a source of credit, as most outstanding balances are paid on the due date. For example, the ratio of outstanding credit card advances and the total value of credit card transactions has decreased continuously from a monthly average of 4.1 in 1985 to 2.1 in 2003 (*RBA Bulletin*, Table C1). Outstanding credit card debt was less than 10% of total outstanding personal credit until 1997, but rising quickly to 29% in 2007.

but not on the non-bank financial intermediaries, including building societies and hire-purchase companies. This was regarded as unfair to the banks and, more importantly, as weakening the impact of monetary policy. The *Financial Corporations Act, 1974* was intended to bring non-banks within the regulatory framework by extending interest rate ceilings to all non-bank financial institutions. However, that part of the Act was not proclaimed (Schedvin 1992, 390). Instead, interest rate ceilings were removed and banks were allowed to compete on equal terms with other finance providers. Consequently, some banks integrated the activities of their financial subsidiaries with their own, like the National Bank and CCC (Blainey and Hutton 1983, 301), while other banks divested their interests in finance companies, like the Commercial Bank and General Credits (Wood 1990, 367). By 1980, a wider range of instruments of consumer finance had become available, as Table 3 shows.

The Campbell Inquiry into Australia's financial system, conducted during 1979-81, proposed in its final report to abolish all direct controls on interest rates and portfolio composition as they distorted and inhibited the operation, efficiency and development of the financial markets in Australia. The process of deregulation of the financial sector then accelerated (Merrett 2002, 268-9). In 1984, the government decided to take bolder deregulatory steps, and by 1986 the process was complete: interest rate and capital controls had been removed, the currency was floated and foreign-owned banks were allowed to enter. The differences between the various categories of institutions in Australia's financial sector started to fade. Almost all financial institutions started to offer various forms of consumer credit, particularly housing loans and personal loans.

Consumers gained access to a more range of personal loans at increasingly competitive rates and on a diversity of conditions that suited their circumstances. For example, while hire-purchase credit was secured credit, many personal leans were unsecured, albeit with higher interest rates. Some banks allowed borrowers to use their homes to secure their personal loans (especially for home-improvement loans). Personal loans usually had a term of 2 to 5 years and involved regular monthly repayments that amortise the loan. Home-equity loans could take the form of a revolving line of credit, which meant that the repayment of borrowed funds did not extinguish the line of credit. As with instalment credit, personal loans tended to be for small amounts that attract different interest rates depending on risk the loan carried. The most favourable rate applied to substantial secured loans.

The increasing flexibility in personal finance allowed consumers to take highly personalised credit options in terms of fee structure and repayment conditions. Consequently, it is often difficult to identify the purposes for which consumer credit was used, particularly with revolving credit.[17] The clearest example is the credit card, which

[17] Surprisingly little is known about the purposes of consumer credit since the 1960s. ABS data suggests that during 1987-02, about 40-50% of all fixed term personal credit was used for the purchase of cars, new and used, decreasing to 30% in 2005 (*Lending Finance*, ABS 5671.0). About 15-20% was for refinancing purposes, 5% for the purchase of residential blocks of land, rising to 14% in 2005, while only about 5% was used for the purchase of boats, caravans, trailers and household goods. In the

can be used to obtain credit for a wide range of purposes, rather than one specific purpose. In the 1990s even the boundaries between housing and personal loans started to blur. Home mortgages could be renegotiated and increased in order to allow customers to take out a loan for house renovations, or the purchase of a car or furniture.

The diversification of consumer credit was not indicative of a de-concentration in the consumer credit sector. In the 1950s and 1960s a few finance companies dominated, as Table 2 showed, but since then the main trading banks increased their interest in this sector. They first did so by establishing new, or buying into established finance companies. In the 1960s they themselves started to extend personal credit, a trend expounded by their introduction of the Bankcard credit card in 1974, followed by credit cards of other denominations.

The deregulation of the financial market in Australia of 1984 was followed by a spate of bank mergers and of associations between finance companies, banks, and insurance companies that effectively enabled the banks, particularly Australia's 'big four', to consolidate their position in the consumer credit market. In addition, many non-bank financial institutions converted to become banks, while several existing banks consolidated their interests in finance companies. Consequently, by the 1990 the market for personal finance was dominated by the banks, as Table 4 confirms: their share in new personal finance commitments increased from 66% in 1985/86 to 79% in 2005/06, at the expense of credit cooperatives and finance companies.

Conclusion

Firms in the Australian market for consumer credit long operated outside the regulated financial sector, in regulatory environments that differed between the Australian states. Moreover, many finance companies were privately owned or controlled by larger financial companies and were not subject to reporting requirements. The relevant industry association, the Australian Finance Conference, was established in 1958, but only represented the largest finance companies and did not aggregate information that allows generalisations of the development of consumer credit. Changes in the regulation of the financial sector since the 1960s meant that consumer credit became offered by a wider range of institutions as one of an array of financial services. Consequently, this article had to be based on fragmented and disparate sources.

Consumers in Australia were able to purchase goods on instalment credit, particularly cash order and hire-purchase well before World War II. But it took until the 1950s before the uptake of consumer credit expanded to a significant degree. The growing use of hire-purchase plans for the purchase of cars and consumer durables explains much of the initial increase. Such plans were increasingly offered by specialised finance companies, which benefited from the fact that their activities were not under

meantime, the share of revolving credit in total personal credit increased from 35% during 1985-95 to direct restrictions from Australia's monetary authorities, particularly the central bank. Finance companies diversified their operations from the late-1950s. Amongst others they started to supply unsecured personal credit, which other financial institutions only offered to a very limited degree.

Gradual deregulation of the financial market in Australia, starting in 1963, progressively allowed more financial companies to also start offering personal credit. Personal credit offered by this growing range of institutions soon replaced hire-purchase as the main source of consumer credit. As a consequence, households quickly increase their uptake of consumer credit to the equivalent of 15 to 20% of total household income. Real interest rates were long relatively low, until central bank policy drove them up significantly in the mid-1980s. Given that there was then a wide range of institutions offering personal credit and that the market was very competitive, it seems likely that this significant increase of interest rates reduced the uptake of consumer credit. Only in recent years did consumer credit increased to more than 20% of household income.

During the 1950s and 1960s, most cars and durables were purchased on instalment plans. Default and repossession rates were very low, which suggests that most consumers learned to live with debt, taking it up within their means and their ability to repay and pay interest. The low default rates help to explain why an increasing number of financial firms started to offer unsecured personal credit. The gradual deregulation of the financial sector since the 1960s, and the consequent mergers and acquisitions of financial companies, allowed the main trading and savings banks to increase their share in the market for consumer credit and to dominate it since the late-1980s.

This article focused on the supply of consumer credit. In the light of recent study of consumer expenditure in Australia (Haig and Anderssen 2007), further research could consider demand factors in greater detail, particularly the degree to which access to and uptake of consumer credit facilitated the growth of household expenditure on consumer durables and cars, and thus fostered the postwar consumer boom. Such research may underline the importance of consumer credit to economic growth in Australia during the 20th century.

55% during 2000-07. No information is available on the purposes of such revolving credit.

Appendix: Statistical sources on consumer credit in Australia

Constructing historical statistics on the expansion of consumer credit is difficult, because there was no systematic and consistent recording of outstanding consumer credit until 1989. Consequently, Figure 1 and 2 can only offer an approximated impression.

Data on consumer credit were not centrally collected in Australia until the 1960s, because the sector was largely unregulated and firms were not required to report their activities, unless they were public companies. In 1941, the Commonwealth Board of Inquiry into Hire Purchase and Cash Orders made the first estimates of outstanding hire-purchase credit during 1936-40, based on an incomplete survey among dealers and finance companies (Chancellor *et al.* 1941, 18-20). For 1944/45-1960/61, various authors made estimates of outstanding hire-purchase credit (Arndt and Shrapnel 1951; Shrapnel and Runcie 1955; Low 1960; Harris *et al.* 1961; Runcie and Burke 1969; Runcie 1969) on the basis of the annual reports of large publicly-owned finance companies. To this, the authors added approximations of credit extended by retailers. Most of the hire-purchase credit was at that time for consumer expenditure.

The predecessor of the Australian Bureau of Statistics, the Commonwealth Bureau of Census and Statistics, collected data on hire purchase agreements for retail and commercial purposes since 1953/54 (Shrapnel 1960; Cameron 1961, 502). These were first published in *Retail Hire Purchase Operations of Finance Business (Preliminary Estimates)* in 1960. This publication was succeeded in 1962 by *Insurance and Other Private Finance* (ABS 5.15), which included data on instalment credit for 1956/57 and 1958/59-1971/72. The quarterly publication *Instalment Credit for Retail Sales* (ABS 5.18, 5.46 and 5631.0) accompanied this publication and later succeeded it, yielding data for 1972/73-1983/84. Both series are broadly comparable.

Unfortunately, the data reported in ABS 5.15 comprise only the transactions of the largest finance companies and are therefore underestimated. The Reserve Bank of Australia later published the *Flow-of-Funds* accounts with data since 1953 (RBA 1965, 1981, 1986), which reveal much higher values of transactions by finance companies. This is consistent with the development of a large number of small hire-purchase and finance companies since the 1950s, if not before.

In the 1960s, finance companies diversified their activities beyond lending to consumers. At the same time, other financial institutions started to extend personal loans, including instalment credit, to consumers, stating with savings banks in 1963. Unfortunately, the available statistical data were reported by financial sub-sector as 'advances'. These sometimes included mortgages and lending to private enterprises, but not consistently every year. Without the basic data, it is difficult to reconstruct consistent time series from the available relevant publications.

In the 1970s, the importance of instalment credit as a category of consumer credit started to decrease. Personal credit, which was provided by finance companies and an increasing range of other financial institutions, took its place. At the same time, finance companies diversified their activities away from hire-purchase towards *e.g.* personal loans, leasing, and bridging finance for both consumers and producers. When the drastic deregulation of the financial sector took hold in 1985, the ABS changed the way it reported on the operations of the financial sector. Consumer credit became reported as *Personal Finance* (ABS 5642.0 - 1985-93; RBA Table DO2: Lending and credit aggregates - 1976-2007). This includes a wider range of credit options available to individuals than only instalment credit. A major problem with this series is a break due to a change in definition in 1989, when banks were required to be more specific in allocating outstanding credit to customer categories (Clare *et al.* 1989, 9, 13). As a consequence, outstanding personal credit increased from A$25 billion in December 1988 to A$42 billion in January 1989.

The details on personal finance published since 1976 by both ABS and RBA are difficult to reconcile with the earlier ABS data on instalment credit, as the latter was only a sub-section of the first. To circumvent this problem, one has to add personal credit extended by a growing range of financial institutions to the instalment and personal credit extended by finance companies before 1985. The ABS indeed published data on the activities of several financial institutions separately, including credit unions and building societies. However, these data are not always comparable over time and cannot be used to compile consistent time series. Moreover, they don't cover all financial institutions. Hence, to approximate the growth of personal credit since 1953, we used outstanding personal credit from RBA's *Flow of Funds* accounts (RBA 1965, 1981, 1986), the RBA's historical economic statistics (RBA 1997) and the *RBA Bulletin* (together referred to as 'RBA data'), in addition to the abovementioned data on the activities of firms extending hire-purchase and instalment credit for 1953-1984. For 1977-2007 we have RBA data on total outstanding personal credit, but these do not offer a disaggregation by credit institution or by purpose of the loans, which makes them difficult to compare with earlier data.

The following sources were used to compile the series shown in Figures 1 and 2:

1. Hire purchase for consumption: 1936-40 Arndt and Shrapnel 1953, 40 and Challenger 1941, 18-20; 1952-52 Low 1960, 2; 1953-56 Cameron 1961, 502; 1957-73 ABS data.
2. Total instalment credit (major finance companies): 1936-40 Challenger 1941, 18-20; 1953-84 from RBA flow of funds accounts plus instalment credit by retailers, 1953-56 Cameron 1961, 502 and 1957-84 ABS data.
3. Total instalment credit (all finance companies) 1953-71 as (2), plus non-retail advances by finance companies from RBA data.
4. Instalment, personal bank credit and outstanding credit card balances:
   1946-51 as (1) above plus personal credit of major trading banks, life insurance firms and money market corporations from Arndt and Shrapnel 1953, 45;
   1953-70 as (3) above plus outstanding personal credit balances (excluding housing) of savings banks ('other advances' or 'loans and advances'), building societies ('loans'), credit unions, life insurance firms ('loans on policies and other loans') and general insurance firms ('other advances') from RBA data;
   1971-2007 as (2) above plus outstanding personal credit balances (excluding housing) of finance companies, trading banks, savings banks ('loans and advances'), building societies ('loans'), credit unions, life insurance firms ('loans on policies and other loans', excluding housing), general insurance firms ('loans on policies and other loans') and money market corporations from RBA data.
5. RBA, total personal credit, 1977-88 from Clare *et al.* 1989, 17; 1989-2007 from RBA data.

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Table 1. Shares of Trading Banks in Ownership of Hire-Purchase Companies, 1950s.

Bank	Hire-purchase company	Date	Bank's share
Commonwealth Bank of Australia	Industrial Finance Department	1946	100%
National Bank of Australasia	Custom Credit Corporation	1954	40%
Bank of Adelaide	Finance Corporation of Australia	1955	40%
English, Scottish & Australian Bank	Esanda	1955	100%
Commercial Bank of Australia	General Credits	1956	45%
ANZ	Industrial Acceptance Corporation	1957	14%
Bank of New South Wales	Australian Guarantee Corporation	1957	40%
Commercial Banking Co. of Sydney	Commercial and General Credits	1958	40%
Lombard Banking	Lombard Australia	1958	60%

Sources: Low 1960, 10-11; Runcie and Burke 1969, 38.

Table 2. Holders of Hire-Purchase/Instalment Debt, 1945/46–1965/66 (million A$).

	1945/46	1950/51	1955/56	1960/61	1965/66
Australian Guarantee Corporation	1.8	29.8	65.8	132.4	269.0
Industrial Acceptance Corporation	2.4	26.4	80.2	169.0	236.5
Custom Credit Corporation	-	-	43.2	168.2	177.6
Commonwealth Bank	0.6	29.4	31.4	37.6	53.1
Other finance companies	9.0	53.8	234.8	293.4	337.8
Retailers	6.4	45.8	*106.0*	398.5	360.3
Total	20.2	185.2	661.4	1,201.1	1,434.3

Notes: 1945/46 and 1950/51 refer to hire-purchase credit only, 1955/56 instalment credit extended by retailers refers to 1954/55 hire-purchase credit.
Sources: Arndt and Shrapnel 1953, 29, 39; Runcie 1969, 18, 23-25; *Insurance and Other Private Finance* (ABS 5.15).

Table 3. Balances Outstanding on Instruments of Consumer Finance, June 1980.

	A$ million	Share
Instalment credit for retail sales, finance companies	2,897	21.7%
Personal loans, major trading banks	2,236	16.7%
Personal loans, credit unions	1,509	11.3%
Personal loans, finance companies	1,461	10.9%
Bankcard, major trading banks	936	7.0%
Loans on policies, life insurance companies	312	2.3%
Instalment credit for retail sales, retailers	138	1.0%
Personal loans, building societies	34	0.3%
Personal loans, money market companies	27	0.3%
Other (unexplained)[a]	3,797	28.4%
Total	13,347	100.0%

Note: Balances outstanding include interest and other charges.

a. Includes credit extended by institutions in the table that was not in 1980 identified as personal credit. It also includes personal loans extended by a range of other financial institutions, such as small trading banks, savings banks, non-life insurance companies, pastoral companies, and small finance companies.

Sources: Total from Clare *et al.* 1989, 17; major trading banks, life insurance companies from *Reserve Bank of Australia Bulletin*; credit cooperatives/unions from *Credit Unions* (ABS 5618.0); finance companies and retailers from *Instalment Credit for Retail Sales* (ABS 5631.0).

Table 4. New Personal Finance Commitments by Type of Lender, 1985/86-2005/06 (billion A$).

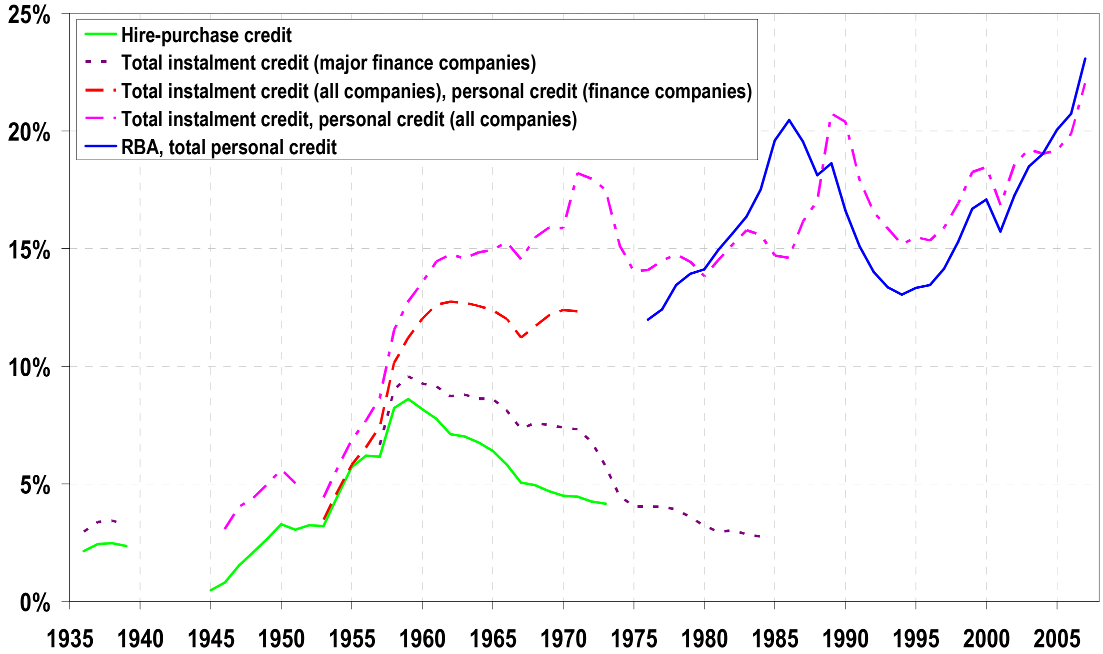
	1985/86		1995/96		2005/06	
	bln A$	share	bln A$	share	bln A$	share
All banks	9.8	66%	22.8	71%	59.3	79%
Finance companies	1.7	11%	3.0	9%	3.2	4%
Credit cooperatives	3.3	22%	5.3	16%	3.3	4%
Others[a]	0.2	1%	1.1	3%	9.2	12%
Total	14.8	100%	32.3	100%	74.9	100%

a*.* Includes permanent building societies, general financiers and retailers.

Note: Includes both fixed loan facilities and new and increased lending commitments under revolving credit facilities.

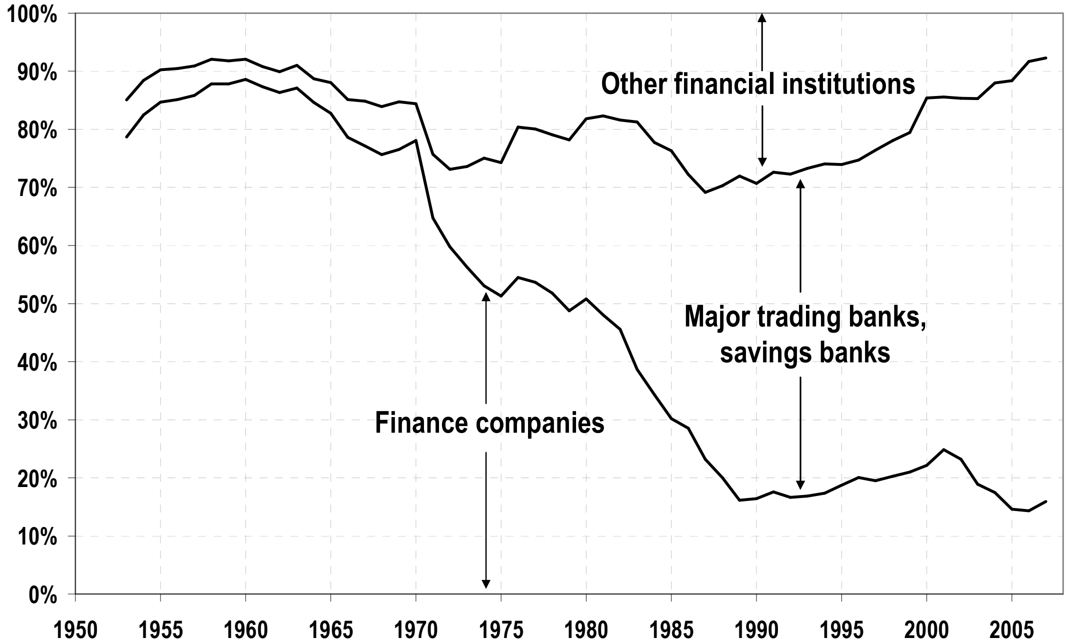
Sources: Calculated from *Personal Finance* (ABS 5642.0), continued as *Lending Finance* (ABS 5671.0).

Figure 1. Outstanding Consumer Credit as % of Total Gross Household Income in Australia, 1935/36-2006/07 (%).



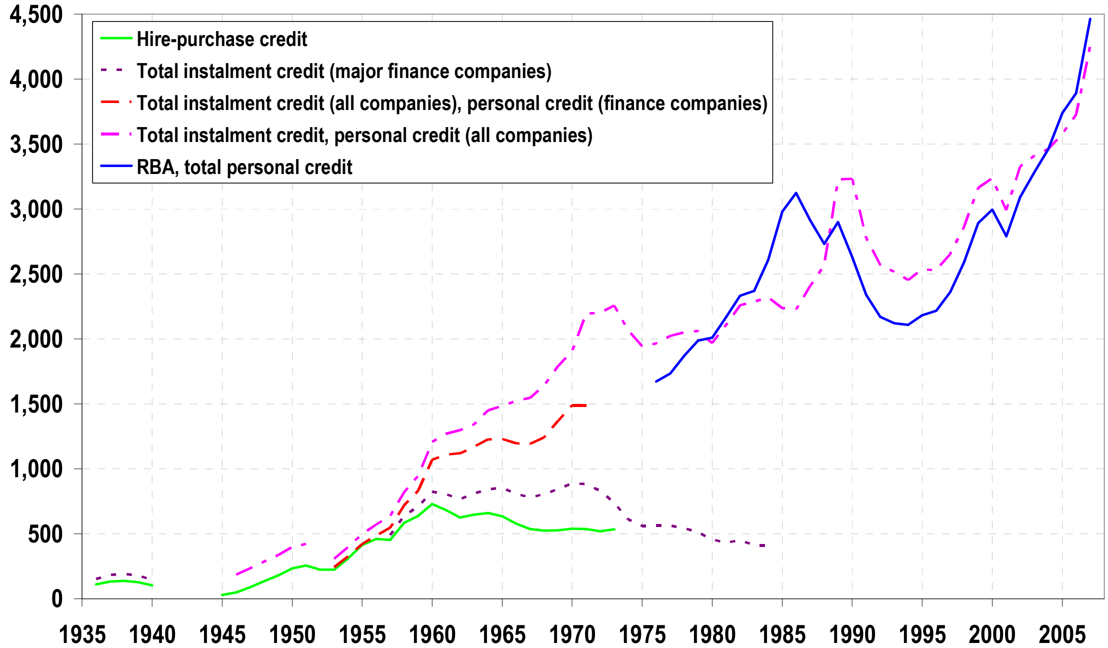
Sources: See Appendix 1 and Table A1; household income 1949/50-1958/59 *Australian National Accounts, National Income and Expenditure* (ABS 5204.0), 1959/60-2006/07 ABS 5206.0 Table 14, 1935/36-1948/49 are rough estimates based on Arndt and Shrapnel 1953, 46 and consumer expenditure from Haig and Anderssen 2007, 430.

Figure 2. Shares of the Main Financial Institutions in Outstanding Consumer Credit, 1952/53-2006/07 (cumulative %).



Sources: See Appendix 1 and Table A1.

Figure 3. Outstanding Consumer Credit per Capita in Australia, 1935/36-2006/07 (1989/90 A$).



Sources: See Appendix 1 and Table A1; population from Vamplew 1987, 26 and ABS; deflator is the consumer price index (1989/90 prices) 1948/49-2006/07 from ABS and RBA, linked for 1935/36-1947/48 to retail price index (1923/27 prices) from Vamplew 1987, 213.

Table A1. Data used for the construction of Figures 1 and 2 (million A$, unless indicated otherwise).

mid-year	Retail Hire-Purchase credit	Total Instalment credit	Personal loans, outstanding balances: Finance companies	idem, + instalment	idem, + general financiers (1)	idem, + general financiers (2)	Major trading banks	Savings banks	Building societies	Credit unions	Life Insurance loans	General insurance loans	Money market corporations	Retail companies	Credit cards, outstanding advances	CPI (1989/90 =100)	Population (mln.)	Gross disposable household income
1935																4.1	6.8	*1,350*
36	*31*	43														4.1	6.8	*1,450*
37	*38*	53														4.3	6.9	*1,580*
38	42	58														4.4	6.9	*1,690*
39	40	56														4.5	7.0	*1,720*
1940	34	48														4.7	7.1	
1945							19				32		2			4.9	7.4	*2,400*
46							24				31		2			5.3	7.5	*2,520*
47							31				30		3			5.5	7.6	*2,580*
48							40				31		3			5.5	7.8	*3,200*
49	12						52				31		3			5.5	8.0	*3,750*
1950	20						67				32		4			5.6	8.3	4,434
51	39						82				34		4			5.8	8.5	6,080
52	67															6.3	8.7	6,307
53	100							*20*	0	1	39	6				6.9	8.9	7,061
54	145							*25*	0	2	39	8				7.5	9.1	7,389
1955	185							*30*	0	2	42	8				8.5	9.3	7,906
56	204							*35*	0	2	50	10				10.4	9.5	8,581
57	226	*224*						*40*	0	3	56	13				11.4	9.7	9,168
58	330	*324*						*45*	0	3	63	17				11.6	9.9	9,169
59	451	*435*						*50*	0	4	74	25				11.7	10.2	9,874
1960	532	*510*						59	1	5	75	54				12.1	10.4	12,491
61	565	610						66	1	7	95	72				12.8	10.6	13,152
62	754	825						71	1	9	103	86				13.0	10.8	13,405
63	850	944						81		12	123	53				13.1	11.0	14,315
64	1,021	1,157						96		20	129	114				13.5	11.3	15,724
1965	1,021	1,202						132		28	142	132				14.1	11.5	16,873

66	953	1,169						176		38	156	208				14.1	11.6	17,687
67	1,004	1,258						222		49	171	213				14.1	11.8	19,684
68	1,062	1,356						266		63	197	256				14.3	12.0	20,761
69	1,080	1,451						301		84	221	254				14.8	12.2	23,043
1970	1,028	1,434					65	196	0	112	249	276				15.3	12.5	25,791
71	994	1,443	218	1,931	*2,000*		*100*	239	0	150	276	326				15.7	13.1	28,366
72	1,026	1,576	278	2,047	*2,100*		*200*	269	0	217	303	424				16.3	13.3	31,420
73	1,078	1,727	374	2,261	*2,350*		*400*	325	0	314	319	469				16.7	13.5	35,544
74		1,908	544	2,306	*2,450*		*500*	513	0	420	339	394				17.2	13.7	43,313
1975		2,077	601	2,523	*2,650*		613	574	0	537	356	438			48	18.0	13.9	51,779
76		2,135	800	3,034	*3,200*		853	695	11	343	336	476	6		149	19.3	14.0	59,514
77		2,040	1,048	3,649	*3,850*		1,116	775	14	497	359	554	7		356	20.4	14.2	68,568
78		1,936	1,216	4,020	*4,250*		1,422	814	14	657	395	520	12	123	560	23.1	14.4	75,680
79		2,097	1,352	4,251	*4,500*		1,830	882	25	912	414	525	18	120	776	26.9	14.5	84,932
1980		2,406	1,461	4,824	*5,100*		2,236	876	34	1,178	470		27	118	936	30.4	14.7	94,552
81		2,763	1,681	5,645	*5,950*		2,986	1,255	45	1,435	522		40	148	1,189	34.6	14.9	107,097
82		2,954	1,867	6,421	*6,780*		3,704	1,650	57	1,717	725		53	187	1,538	37.9	15.1	122,481
83		3,041	1,810	6,402	*6,750*		4,377	3,054	76	2,170	829		63	135	1,883	41.0	15.3	134,903
84		3,035	1,748	4,587	4,844	6,599	4,645	3,687	379	2,675	996		123	101	2,195	45.2	15.5	149,913
1985				5,202	5,580	7,181	6,851	4,115	441	3,338	1,686		118	57	2,650	49.4	15.7	161,691
86				5,057	5,753	7,440	6,569	4,824	629	3,939	2,460		136	64	3,027	54.6	15.9	178,325
87				4,874	5,989	7,257	*7,000*	7,341	607	4,302	4,489		173	65	3,441	60.9	16.1	193,322
88				4,933	6,347	7,276	*8,000*	10,274	856	4,348	5,275		252	52	3,682	65.0	16.4	213,267
89				5,463	7,167	8,063	*9,000*	18,828	1,941	4,796	6,934		276	52	3,928	67.8	16.7	240,511
1990				6,215	8,205	8,996	29,712		1,475	5,299	8,929		286	62	4,165	73.5	16.9	268,491
91				6,136	8,192	8,824	27,611		1,073	5,360	6,913		342	61	4,209	80.4	17.2	280,059
92				5,566	7,494	7,974	26,649		979	5,476	6,259		507	61	4,379	86.3	17.4	289,120
93				5,632	7,415	8,083	27,079		384	5,576	6,163		637	52	4,717	92.6	17.6	302,408
94				5,895	7,787	8,346	27,261		449	5,821	5,354		821	50	5,183	100.0	17.8	316,696
1995				6,962	9,128	9,727	28,622		485	6,496	5,644		832	43	5,796	105.3	17.9	334,848
96				7,829	10,270	10,957	29,863		826	7,058	5,237		654	38	6,929	107.3	18.2	355,846
97				8,158	10,767	11,451	33,469		809	7,291	5,072		640	34	7,801	108.4	18.4	369,651
98				9,694	12,616	13,077	37,305		893	7,614	5,011		618	23	9,291	110.4	18.6	381,615
99				11,366	14,925	15,313	42,511		958	8,243	5,357		400	14	10,995	113.9	18.8	398,708

2000	17,256	49,206	690	5,686	4,903	39	*10*	13,880	118.7	19.0	421,278
01	19,200	46,787	785	5,987	4,284	63	*10*	16,481	120.2	19.3	457,707
02	20,736	55,574	981	5,554	6,277	265	*10*	21,587	121.0	19.5	481,151
03	17,976	63,168	790	5,437	6,330	1,446	*10*	24,277	122.3	19.8	495,160
04	17,588	71,038	997	5,343	4,447	1,304	*10*	27,747	126.2	20.1	529,179
2005	15,773	79,673	987	5,484	4,189	1,863	*10*	31,370	133.8	20.3	562,856
06	17,091	92,150	1,038	5,397	3,364	79	*10*	36,597	137.6	20.7	599,527
07	22,553	108,067	1,229	5,377	4,193	80	*10*	40,756	141.3	21.1	642,095

Note: Amounts in italics are approximations.