TABLE 3. THE REAL RATE OF INTEREST
in a typical case of Retail Credit

An article sells for $100 cash, or $10 down and $10 a month for 10 months.

Month	Principal	Payment on principal	Payment on interest
1	$90	$10	
2	80	10	
3	70	10	
4	60	10	
5	50	10	
6	40	10	
7	30	10	
8	20	10	
9	10	10	
10	0	0	$10

This loan is equivalent to $450 for one month, or $37.50 for one year. Thus the real rate of interest is 100 times $10/$37·50, or 26·66 per cent.

A typical use of this device for hiding the real costs of credit from an innocent purchaser is illustrated in table 3. While the apparent rate is $10 on $100. Or 10 per cent yet the real rate is 26.66 per cent. It may be argued that an intelligent person knows that the real rate is 26 per cent and that dealers or financial agents should be allowed to quote and compute charges in any manner which may appeal to them. But it appears to be well established that the common people are not aware of the problem, or recognize it only when it is too late to be of use to them. It has been estimated by William Trufant Foster in Public Affairs Pamphlet No. 61, that the total credit of this nature, advanced to consumers at the end of 1940 in the United States amounted to $9,190,000,000. This is equal to the call loans advanced to the New York Stock Market in 1929 by the financial institutions of the world.

The evils associated with this enormous business constitute one of the great social problems of the age. An excellent survey of the whole problem can be found in Law and Contemporary Problems, Vol. VIII, No. 1, published by the School of Law, Duke University in the winter of 1941. The entire number is devoted to this question and fourteen authorities contributed articles. At an earlier date (March 1938), the annals of the American Academy of Political and Social Science produced a comprehensive issue on Consumer Credit. There can be no doubt as to the magniture or seriousness of the problem. It may be sufficient here to point out that the evils associated with short term personal loans are universal, that they exist in comparable degree in Canada, and that the vicious element of the business centres about the practice of hiding the real costs from the borrower by means of fees and penalties and by the device of applying the interest charges to the principal sum when the loan is made, rather than on the unpaid balances.

Two major contentions are hereby offered on this particular point in section 91, subsection 2.

First, it is contended that it is neither fitting nor desirable that a government should recognize or recommend a method of making loans and collecting interest and principal which hides the true rate of interest. Under subsection 2 the real price of money would be double the rate which most borrowers would think they were paying.

In the second place, it is contended that no government, and in particular no government of a democratic country, should deliberately divide its people into two classes, those who can afford to borrow more than $500 and those who cannot afford such an amount, for the purpose of establishing a higher rate for the less fortunate people.

If the rates of interest mentioned in subsection 1, namely, 6 per cent interest, or the higher effective rate of 6 per cent discount, are to be the