Richard Mawrey's Consumer Credit Column February 2013

Petit déjeuner de chien

On 19 September 1870, barely a fortnight after the Battle of Sedan, the victorious German army completed its encirclement of Paris. Paris remained under siege until 28 January 1871, when hunger and a vicious bombardment with Krupp artillery brought about its surrender and the end of the Franco-Prussian War. As the siege progressed, food became scarcer and scarcer and the population was reduced to eating dogs, cats and vermin. Even the animals in the zoo at the Jardin des Plantes were sacrificed, and the two elephants, Castor and Pollux, were soon to be seen on the best dinner-tables (apparently the trunk is the tastiest part, though I cannot speak from experience). By the end of the siege, the price of a banquet before the War would barely buy you a couple of sewer rats, but the wealthier citizens were prepared to pay it.

Now the purpose of this excursion into nineteenth century history (apart from, as always, the better education of my readers) is to illustrate, in a stark form, the inexorable application of one of the oldest phenomena of human life, the Law of Supply and Demand. Though, obviously, this ancient rule comes as no novelty to my sophisticated readers, it always comes as a nasty surprise to politicians and consumerists. Put in its most basic form, when the supply of goods or services is scarce and demand high, prices go up and, when supply is plentiful and demand low, prices go down. When supply is scarce and well-meaning authorities attempt to impose maximum prices, then a number of things inevitably happen as a consequence.

First, suppliers are not happy at selling at prices which do not reflect demand so, secondly, they refuse to sell at those prices. Thirdly, therefore, they adopt one (or both) of two courses: either they withhold their goods or services (thus increasing the scarcity) until demand becomes so great that the restrictions have necessarily to be removed or they simply supply their goods or services at the market rate by evading the restrictions, in collaboration with their customers. In short, the result of price restriction is either hoarding or a black market.

If a return to French history can be tolerated, a very early illustration of the folly of setting maximum prices can be found during the Reign of Terror (1793-4). In May 1793 maximum prices were set for some foodstuffs and in September of that year 'la Loi du Maximum' was extended to all foods and many other basic necessities. Infringement of the law was classed as treason for which the penalty was, of course, death. Some historians believe that more people were guillotined for breach of the Law of the Maximum than all the priests and aristocrats put together. The policy was a complete failure. Food was hoarded; people starved and then rioted. Opposition to the Law was a major cause of the fall of Robespierre and the end of the Terror. This sad historical episode has never deterred politicians from trying to control the market and to fix prices (though, fortunately, only rarely by using guillotines and the like to do so).

Credit, particularly consumer credit, is traditionally an area where the great and the good believe that markets can be controlled. To the surprise and fury of consumerists, the cost of credit is almost invariably in inverse ratio to the credit-worthiness of the borrower. The wealthy can borrow cheaply: the poor must pay through the nose. Indeed the proposition was put very neatly by Christ himself: 'For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken away even that which he hath' On this issue, however, the Founder of the Christian religion has, as so often, proved himself a great deal smarter than his followers, as we shall see.

The latest attempt to persuade water to flow uphill concerns payday loans. Now the people who need payday loans are clearly people who do not have much money or who do not manage the money they do have very well. They are not people who can make unlimited use of their credit cards or pop into their friendly High Street bank for a wee overdraft when finding themselves a bit boracic. Putting it brutally, they are not very credit-worthy. Lending money to such people carries with it a considerable degree of risk. Credit for those needing payday loans is thus a sellers' market. Tough: 'but I am your father and that is the way things are' (reference my column April 2012).

None the less, in the autumn of 2012, a mighty movement arose to persuade the Government to impose an interest cap on payday loans. Spearheading the movement was, surprisingly, the Labour Party which, though spending some 13 years in power creating huge amounts of consumer credit legislation, had somehow unaccountably overlooked the issue in the past. To this case was recruited no less a figure than the newly appointed Archbishop of Canterbury, Dr Justin Welby.

Let us, for a moment, consider Dr Welby. At the vernal equinox he will be consecrated as 105th Archbishop in place of Dr Rowan Williams. I hope (but do not expect) that the sermon on the occasion of the transfer of the Primacy will be preached, as was Alan Bennett's famous sermon in *Beyond the Fringe*, on the text 'But my brother Esau is an hairy man and I am a smooth man'. Much has been made of the fact that, unlike most bishops and almost all politicians, he has done a Real Job. He was a high-flying executive in the oil industry before hearing the call. He is also, this time like some politicians, an old Etonian. Now one of the often-remarked characteristics of both oil executives and of old Etonians is that their experience of financial difficulties is rarely first-hand. Indeed their understanding of how the other half – actually the other 99% - live is often comparable to that of her late Majesty, Queen Marie-Antoinette. The difficulty of the well-heeled in comprehending the financial mechanisms of the consumer credit market mirrors the French Queen's ignorance of the availability of food choices to the Parisian underclass.

Dr Welby went so far as to denounce the high rates of interest charged on payday loans as 'usury'. Er, well, surely the Church's teaching is that *all* lending at interest is usury: is the soon-to-be Primate condemning all banks, building societies, credit-card issuers and other lenders to the bottomless Pit where the flames are quenched not? Or have we redefined 'usury' so that it only applies when the cost of borrowing rises to a level which offends the liberal sensitivities of the political class and of the higher ecclesiastics? Is the hedge-fund manager who borrows a few million (at soft rates) to buy his Gloucestershire manor-house a victim of usury or is that status confined to those who cannot make ends meet till the end of the month and need a quick and expensive payday loan. As *The Sun* would surely say: 'we should be told!'

None the less, the cry went up: 'Payday loans must be capped'. Petitions were signed. Amendments to legislation were threatened in the House of Lords. The Coalition Government (a term some believe to be an oxymoron but I couldn't possibly comment) immediately displayed the backbone of, well, the average garden slug, and caved in. On 28 November it was announced that, by an amendment to the Financial Services Bill, powers would be given to the new Financial Conduct Authority to enable it to investigate payday lenders and, if 'appropriate', to impose a cap on interest rates and restrictions on roll-over when repayment is delayed or missed.

This news was, predictably, greeted with glee by the proponents of the ban. A Labour peer one Lord Mitchell (no, I hadn't heard of him either) went so far as to exclaim: 'this is an industry run by cowboys on the fringes of legality…The losers are clearly the loan sharks and the payday lending companies. They have tried every trick in the book to keep this legislation from being approved and they have failed. Their failure is our victory.' Well! Well! The worthy Bishop is joined by the proponent of the Nanny State: dare one say 'God and Maman'?

What will actually happen if the FCA is ultimately empowered to cap payday loans and is pressured by consumerists into exercising those powers? Let us consult *Old Mawrey's Almanac*. Will cheap and cheerful loans be freely available to the current users of payday loans? Will the loan sharks see the Light and come round to the Mission like the gangsters and other lowlifes in *Guys and Dolls*? Will the newly enthroned Archbishop Welby be able to pronounce his archiepiscopal blessing on a new era of low interest rates for all?

At the risk of seeming somewhat of a wet blanket, the Seer's prognostication is that none of these things will happen. There will be no New Jerusalem. All that will occur is that the current payday lenders who are operating within the law and who hold licences from the OFT under the Consumer Credit Act 1974 will simply step outside the law, confident that the FCA will be unlikely to have the resources to do more than mount a few token prosecutions while the payday loan industry continues unaffected.

This is, of course, all very deplorable. It would be lovely if the really hard-up could have access to cheap credit but that's not the world we live in. I have no problem with categorising those who batten on the poor with expensive loans as loan sharks and to join Dr Welby in his hand-wringing. It would be wiser, however, to leave moral punishment to the next world without attempting fruitlessly to apply legal punishment in this.

One might prefer to live on a planet where the Law of Supply and Demand did not apply but, as at the time of this writing, no news of such a planet has yet reached the Temple. I'm sure that things will be different (and better) in the life to come and I am quite happy to defer to Dr Welby on that question. If only he would return the compliment by leaving the sinful credit world to those who operate on knowledge and experience rather than moral indignation.

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