Written by **Thomas Sowell** on November 2, 2011

Payday Loans

The mindset of the left was recently displayed in a big, front-page story in the October 30th issue of the *San Mateo County Times*. It was an investigative reporter's exposé of the "payday loan" business and its lobbyists.

According to the reporter: "In California lenders charge up to $45 in fees on a maximum $300 loan. This amounts to an interest rate of 460 percent, trapping some borrowers into a never-ending cycle of debt."

Let's take this one step at a time. Whatever the merits or demerits of the rest of the argument, $45 is not going to trap anyone in a never-ending cycle of debt, even if they are making only the bare minimum wage. Personal irresponsibility in managing money can trap anyone, but that is regardless of whether or not they take out payday loans.

Now to the 460 percent rate of interest. You don't need higher math to figure out that $45 is 15 percent of $300. How did we get to 460 percent? Very simple: By distorting the actual conditions of most payday loans.

As the name might suggest, payday loans are short-term loans to tide people over until they get their next check, whether a salary check, a welfare check or whatever. Payday loans are relatively small sums of money borrowed for very short periods of time, often by low-income people who want some cash right now, for whatever reason.

Is it worth paying the $45 to get the $300 right now, rather than wait a couple of weeks for your check to arrive?

No third party can know that. But taking decisions out of the hands of those most directly affected is one of the central patterns of the political left that make them dangerous to the very people they think they are helping. This is not idealism. It is arrogance — and too often, it is ignorant arrogance, as in this case.

The 460 percent figure comes from imagining that the borrower is not just going to borrow the money for a couple of weeks, but is going to keep on borrowing every couple of weeks all year long.

Using this kind of reasoning — or lack of reasoning — you could quote the price of salmon as $15,000 a ton or say a hotel room rents for $36,000 a year, when no consumer buys a ton of salmon and few people stay in a hotel room all year. It is clever propaganda, but do people buy newspapers to be propagandized?

What about the $45 that is at the heart of all this runaway rhetoric? Does that do more than cover the risk and the costs of processing the loan? Apparently our crusading investigative reporter did not find that worth investigating, even in a long article taking up another page and a half inside the newspaper.

What is called "interest" by the media includes things that an economist would not call interest. The fees charged must also cover the cost of processing the loan, which is to say the pay of people doing the work, the rent of the premises and other overhead expenses, as well as the risk of default.

But mundane facts like these would spoil the moral melodrama, starring the reporter on the side of the angels against the forces of evil.

Instead, we get the story of how the payday loan industry, like most other industries, has lobbyists contributing money to politicians to try to get spared more regulations. This the investigative reporter calls "protecting" the payday loan industry.

Protecting them from what? From the politicians. Some would call their campaign donations "protection money," in the same sense in which the Mafia collects protection money.

None of this is peculiar to this industry, to California, or to our times. When Al Gore was Vice President of the United States, he phoned businesses from the White House to tell them how much money he expected them to contribute to political campaigns.

Franklin D. Roosevelt's son extorted a $200,000 loan from a grocery chain that was under federal investigation — and he never repaid the loan. Moreover, FDR spoke directly to the head of the chain to seal the deal.

There are not a lot of angels to be on the side of.

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