

FROM THE DESK OF  
LEON HENDERSON, ADMINISTRATOR  
OFFICE OF PRICE ADMINISTRATION  
AND CIVILIAN SUPPLY

7-25-41

Marriner -

Pony will get a letter  
from our staff on reg-  
ulations + administration.  
This is unofficial - of  
course - but I want  
you to know personally  
that I have been over  
the proposals carefully  
+ would urge them most  
strongly, officially, if  
needed.  
Leon

July 25, 1941

Dr. C. E. Parry,  
Chief, Division of Security Loans,  
Board of Governors of the Federal Reserve System,  
Washington, D. C.

Dear Dr. Parry:

Several weeks ago we discussed the desirability of formulating recommendations which would represent the point of view of the staff of this Office with respect to the initial Regulations under the proposed consumer credit Order. We have been working in this direction since that time and are now able to give you our preliminary suggestions. One reason for the lapse of time has been that Mr. Hubachek, Mr. Reuss, and I have felt obliged to consult with various members of the OPACS staff, including section heads and specialists. Mr. Henderson has participated in our discussions and the recommendations made herein reflect his views.

In essence our conclusions are that the initial Regulation should define a very broad area within which it operates principally to crystalize existing conservative business practices, except as to certain critical goods with reference to which we already have adequate data and emergency conditions already exist. This would put on a temporary lid while the next steps are being prepared, would give adequate notice of future intentions, but would minimize both the impact on business and the initial problems of administration. It would also initiate a comprehensive plan of administration and provide a broad base upon which specific and more stringent restrictions could later be added.

More specifically, we recommend:

(1) That the initial Regulation be promulgated simultaneously with the Order or immediately thereafter.

(2) That it apply to all instalment sales of an extensive list of durable and semi-durable consumers' goods to be enumerated in the Regulation, to all instalment loans secured by such goods, and to all instalment loans of less than, say, \$1,500 or \$2,000.

(3) That it require those engaged in the business of making or financing such sales or making such loans to be registered or licensed.

(4) That it restrict the period of payment for all such sales and loans to eighteen months, which would have no more than a mildly restrictive effect on all but a few important commodities.

(5) That it fix minimum down payments, varying with the types of goods, on all instalment sales of the enumerated goods, at levels consistent with current conservative trade practices.

I shall undertake to give you very briefly some of the reasoning which underlies these recommendations.

Two considerations indicate the importance of promulgating the initial Regulation simultaneously with the Order or, at the least, very shortly thereafter. First, we want to minimize the acceleration of the expansion of consumer credit that can be expected during any gap between the Order and the imposition of restraints under it. Consumers will, of course, "beat the gun" by making credit commitments of the very types which would be restricted. This would be encouraged by credit grantors who would naturally try to put as much business as possible on their books before the deadline. Such an expansion of consumer credit and the resulting increase in demand would add substantially to the already grave difficulties of restraining rising prices. Second, it seems strategically useful to link the initial Regulation closely to the Order. We believe the issuance of the Order should be accompanied by a careful statement of its objectives, to assure a sympathetic public reception. If issued promptly the initial Regulation can be made to complement and support the Order and to lean upon it and the accompanying statement for publicity and acceptance.

If the Regulation is to be promulgated with comparatively little or no notice, it should be simple, moderate, readily justifiable, and, so far as possible, easily administered. We believe that a Regulation as sweeping and mild as that outlined above can be made to meet these requirements. In fact, a broad Regulation can be administered more easily than a Regulation which is directed toward one or a narrow group of commodities.

Instalment sales credits are readily interchangeable with instalment cash loans, and the security given for loans does not necessarily identify the purposes for which they are made. If the initial Regulation were to restrict credit terms for only one or a few commodities, it would be essential to make provision to identify the purposes of all cash loans in order to prohibit those used to evade the restriction. Thus a narrow initial Regulation would not mean a narrow administrative problem; the whole field of cash loans would have to be subjected to controls. And the controls necessary would be those most difficult to administer because the borrower's intentions would become determinative and invalidations of contracts conflicting with the Regulation would be involved. To restrain all cash loans and only a limited number of sales contracts would be inequitable and injure public acceptance.

Furthermore, any material dampening of demand and any material relief from upward pressure on the price level would require a very severe curtailment

of credit terms for the single commodity involved, even in the case of such an important commodity as automobiles. The more drastic the Regulation, the more difficult the problem of preventing evasion or avoidance and the greater the necessity for initial controls to deal fully with open account credit and other means of circumvention. Such controls would require elaborate advance discussions with the business agencies affected, to avoid disruption of established financing machinery. Such discussions can better be had after an initial Regulation has put a lid on the consumer credit situation. Relatively mild curtailment over a broad commodity list would avoid many of these issues or postpone them to a more fitting time.

A sweeping but mild curtailment of consumer credit would require relatively simple administrative techniques. Because the limitation of the period of payment would apply both to sales and loans, the purposes of loans need not be the basis of regulation. A down payment requirement can, in theory, be avoided by borrowing under either a broad or a narrow Regulation. But if the down payment requirements of the initial Regulation are moderate, avoidance would be minimized. Moreover, under broad restrictions such avoidance as may occur is unlikely to jeopardize the goodwill of credit grantors by favoring one type of enterprise at the expense of another. Subsequent Regulations can be directed at such avoidance, if it develops.

Under our proposal shifts into other credit forms would be minimized both because most avenues of circumvention would be closed and because the advantages which other avenues offer would be relatively slight. Yet a mild over-all Regulation would have a more satisfactory total economic effect than a stringent control aimed at one or a few commodities.

A general Regulation can be more readily justified from our viewpoint than one directed at the financing of only a few commodities. Most types of consumers' durable goods compete seriously with defense production. Special treatment of automobile financing could be subjected to the charge of discrimination. The recent announcement by OPACS concerning the reduction of production of automobiles, refrigerators, and laundry equipment is pertinent. If the initial Regulation were to be narrow in scope, we would consider it essential that all three of these commodities be covered and probably oil burners, stokers, and other heavy metallic goods as well. Even such a list would be so much narrower than the plain purposes of the Order that we would have some difficulty in justifying it in view of our own objectives.

Our research shows that a limitation of the period of most consumer debt to eighteen months would have very little effect on most goods which use materials and skills that are now plentiful, but would have their

strongest impact on goods which compete with defense weapons for scarce materials and skills. Based on current trade practice, such a restriction would be most severe on automobiles, oil burners, stokers, water heaters, kitchen ranges, refrigerators, washing machines, air conditioning equipment, and pianos. It might slightly affect household furniture, radios, suction cleaners, sewing machines, ironers, and motorcycles. Only as to pianos can the propriety of such a restraint be questioned. Yet our investigations disclose that even in this case the restraint would be justified since piano frames are made of high-grade alloy steel and the felt, ivory, wire, and some hard woods that go into piano construction are becoming increasingly scarce.

It should be noted that the problem of restraining prices of consumers' durable goods will become progressively aggravated as metal shortages are translated into shortages of finished products. The increase in consumer spending on all these various products which would occur unless very general restrictions of credit terms are imposed would obviously be dangerous. Credit restrictions on a few commodities would increase the gravity of the price situation as to other comparable commodities unless there is a general restraint.

The recommended Regulation would define immediately the area of subsequent regulation and thus put industry on fair notice of the field within which special controls might later be applied. It would permit a system of reports to be initiated at the outset for accumulating information that will be needed later to formulate specific regulations, notably information as to terms of credit actually in use for various commodities. It would also permit preparation for the future imposition of controls based on the purposes of loans by requiring cash-lending agencies immediately to identify and report the purposes of all their loans.

When instalment credit is extended directly in connection with the sale of goods the purpose of the transaction is, of course, identified. Hence it would be possible to enumerate in the initial Regulation the many classifications of goods to which the restrictions of instalment sales contracts are to apply. The extreme importance of imposing similar restrictions on all instalment loans of less than a certain amount regardless of their purpose makes desirable a very inclusive list of consumers' durable and semi-durable goods, in the interests of equitable treatment of the two classes of creditors. For reasons of practical administration, however, there should be excluded from this list certain types of commodities the demand for which would not be materially affected by credit control, notably small gadgets and goods which have a low unit price or which are usually sold mainly on open-book credit.

We believe that a system of registration or licensing will inevitably become necessary in order to accomplish the objectives of the Order, and there

would be real advantages in instituting such a system at the outset.

If the administrative difficulties do not outweigh the advantages, we would recommend that the down payment requirements be extended past the enumerated goods. We feel that the purposes of the Order would be served by requiring a modest minimum down payment for every instalment purchase contract regardless of the nature of the goods or services involved, but excluding contracts arising out of medical, dental, burial, and similar services.

We also recommend for the initial Regulation a provision prohibiting advertising of a type which encourages or invites evasion or avoidance of the Regulation.

We believe that a broad and moderate Regulation would provide the soundest base for subsequent action. Subsequent provisions could be directed either toward more stringent controls for specific commodities or toward tightening the initial restrictions, or both. Protected by the initial Regulation the Board could proceed under its regular routine to deal with specific commodities or classes of commodities or by areas or by classes of creditors, or otherwise as events may require. Our own program is likely to require considerable flexibility of this kind. We are convinced that the more promptly a general and moderate restraint is imposed and the longer it is enforced, the more readily administerable will be the more severe restrictions that may be expected to follow.

Sincerely,

Received in  
Chairman's Office

JUL 25 1941

RECEIVED TO DEPT  
of the  
Federal Reserve System