Governor Eccles

DEFENSE PRODUCTION ACT

REGULATION W—AUTOMOTIVE

HEARINGS

BEFORE THE

JOINT COMMITTEE ON DEFENSE PRODUCTION
CONGRESS OF THE UNITED STATES

EIGHTY-FIRST CONGRESS

SECOND SESSION

ON

THE EFFECT OF REGULATION W ON AUTOMOTIVE SALES AND FINANCING

DECEMBER 6, 7, 8, AND 11, 1950

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(Created pursuant to Public Law 774, 81st Congress)

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DEFENSE PRODUCTION ACT
REGULATION W—AUTOMOTIVE

WEDNESDAY, DECEMBER 6, 1950

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D. C.

The joint committee met at 10:30 a. m., pursuant to notice, in the Interstate and Foreign Commerce Committee Room, United States Capitol, Senator Burnet R. Maybank, chairman, presiding.

Present: Senators Maybank, Capehart, and Robertson, and Congressmen Brown, Patman, Hays, and Talle.

Also present: Senator Smith and Representative Holifield.

The CHAIRMAN. I will ask that the meeting come to order.

The committee is very pleased to have Senator Smith here with us. At her request, I will read the note she wrote me:

> I shall very much appreciate your serious consideration of the attached wires which are only a few of the many coming to my office. You will remember that when the order went into effect similar appeals came in from all over the State of Maine and were sent to you for your attention.

The CHAIRMAN. I will ask that the telegrams be made a part of the record.

(The telegrams referred to follow:)

AUGUSTA, MAINE, *December 4, 1950.*

Senator MARGARET CHASE SMITH,
Senate Office Building, Washington, D. C.:

There will be a hearing on the regulation W the 6th, 7th, 8th of December before the Federal Reserve Board. Would you please do all in your power to have this regulation changed to a maximum of 21 months? As it stands now it definitely discriminates against the low-income people. It also prevents dealers from reconditioning used cars. Furthermore, used cars have already been manfuactured and do not drain on the Nation's resources needed for national defense.

AUGUSTA MOTOR SALES,
C. P. BLOUIN AND C. P. BLOUIN, Jr.,

AUGUSTA, MAINE, *December 4, 1950.*

Senator MARGARET SMITH,
Senate Office Building, Washington, D. C.:

If possible please attend hearing regarding regulation W scheduled 6th, 7th, and 8th of December 1950. We feel regulation W is discriminating to the low-income automobile buyer. Also the used car would in no way affect strategic material needed in our defense program. The regulation W has caused an inflation in the so-called junk. Thank you.

NICHOLS AUTO SALES,
FRANK R. NICHOLS.

AUGUSTA, MAINE, *December 4, 1950.*

HON. MARGARET CHASE SMITH,
Senate Office Building, Washington, D. C.:

DEAR MRS. SMITH: Would appreciate your attendance at the meeting on regulation W taking place 6th, 7th, 8th. Kindly help the boys if you can. Us poor people will be walking.

CENTRAL MOTOR SALES,
T. J. GILBERT,

The CHAIRMAN. Gentlemen, the first witness we have today is Mr. Mallon of the National Automobile Dealers Association.

Mr. Mallon, will you proceed in your own way, sir?

STATEMENT OF WILLIAM L. MALLON, CHAIRMAN OF THE PUBLIC AFFAIRS COMMITTEE OF THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. MALLON. Mr. Chairman and members of the committee, before I read the brief, I would like to make the statement that we of the NADA have been torn between conflicting emotions the past couple of weeks; when we originally planned to appear before your committee world conditions were not what they are today, and due to the fact that we appreciate the many, many duties that you gentlemen have, we are endeavoring to curtail the brief as much as possibile, but we do feel that we should present the few remarks we have as we believe it will be beneficial to the committee.

The CHAIRMAN. We appreciate your attitude, Mr. Mallon. As you say, conditions have changed since we talked to you in October.

Mr. MALLON. That is right.

The CHAIRMAN. You may go ahead, sir.

Mr. MALLON. I am William L. Mallon, for the past 37 years an enfranchised new car dealer in Essex County, N. J.

I am appearing today as chairman of the Public Affairs Committee of the National Automobile Dealers Association, a post in which I have served from approximately 10 years. This association presently has a membership of 34,300, which represents approximately 90 percent of the enfranchised dealers in the country. It is therefore self-evident that the National Automobile Dealers Association truly represents and speaks for the enfranchised dealers of the country.

The National Automobile Dealers Association, functioning through its public affairs committee, has always endeavored to adhere to the policy of accomplishing administratively such results as we deem beneficial to the dealers, to the public and to the economy of the country. Only after failing to accomplish such results through administrative channels, do we seek relief through congressional cooperation.

I would like to briefly recite for the benefit of the committee the method in which regulation W was originally promulgated and then further amended.

The Defense Production Act of 1950, which provided the authority to establish credit controls, was approved on September 8, 1950. While that bill was being debated in the Congress, the following contacts were made by representatives of the National Automobile Dealers Association, with representatives of the Federal Reserve Board:

August 2, 1950: NADA President Haller, Managing Director Deo and Assistant Managing Director Barnhart, visited with Mr. Dale Lewis, and other members of his staff. At this meeting the representatives of NADA informed Mr. Lewis that in view of the many statements contained in the President's releases that he intended to request credit controls, NADA had in process at that time a preliminary survey as to the prevailing terms in the retail trade. They also informed Mr. Lewis that NADA would be glad to cooperate with the Federal Reserve Board in the formation of any regulation which might be under consideration.

September 5, 1950: The above representatives of NADA were asked by Mr. Lewis if NADA was interested in regulation W, and if so, a conference would be arranged. That same day Messrs. Haller, Deo, and Barnhart of NADA conferred with Messrs. Lewis, Jones, and Pawley. That meeting lasted about 45 minutes and NADA representatives were informed that other retail groups were also being conferred with on that day. As far as we are able to ascertain, this conference on September 5 constituted the only move on the part of the Federal Reserve Board to have any kind of consultation with our industry. It will be noted that this meeting was held prior to the approval of the Defense Production Act of September 8.

The CHAIRMAN. In other words, it is your contention that the Federal Reserve Board did not follow the intent of the law of Congress because it did not have conferences with your industry before the issuance of regulation W after the passage of the law; is that right?

Mr. MALLON. Other than automobile dealers; do you mean?

The CHAIRMAN. You represent the National Association of Automobile Dealers. To your knowledge, did the Federal Reserve Board have conferences with, say, the used-car dealers?

Mr. MALLON. That I am not in a position to definitely state, Mr. Chairman.

The CHAIRMAN. But you represent, I understood you to say, 34,000 dealers?

Mr. MALLON. Yes; and enfranchised dealers; and enfranchised dealers are new-car dealers.

The CHAIRMAN. You say there was no consultation held with these gentleman by the Federal Reserve Board?

Mr. MALLON. No, sir; except what I am enumerating here.

The CHAIRMAN. The conferences you are enumerating were prior to the passage of the law?

Mr. MALLON. That was prior to the passage of the law, but I have some other information here as we go along, Mr. Chairman.

Regulation W was promulgated as effective September 18, 1950. It provided for one-third down payment and 21 months in which to pay the balance. The limitation of a 21-month maturity definitely curtailed the then prevailing terms in numerous sections of the country. In many instances terms of 24 to 36 months were necessary due to certain factors existing in various markets. In spite of this limitation of 21 months, NADA did not register a definite objection.

NADA was inclined to permit a sufficient experience under the 21-month terms to develop definite facts as to the effect such limited terms would have on the movement of cars at retail level, particularly to those purchasers requiring safe and reliable transportation in order to satisfactorily fill their jobs.

However, within a couple of weeks, NADA heard rumors that the Federal Reserve Board was preparing to issue an amendment to the original regulation, further restricting the length of maturity.

October 4, 1950: NADA President Haller sent the following telegram to Chairman Thomas B. McCabe of the Federal Reserve System:

Reports are reaching us that Federal Reserve Board is meeting to consider tightening credit terms in regulation W. Any such action at this early date, only 2 weeks after regulation in effect, seems premature. We respectfully request that no action be taken on automobile terms until we have opportunity of discussing with you the effect of regulation on business retail automobile dealers.

NADA received no acknowledgment to this telegram.

October 5, 1950: Messrs. Deo and Barnhart of NADA talked with Mr. Lewis, and Mr. Pawley, on technical questions in connection with regulation W, as originally promulgated, and also talked on matters pertaining to the NADA Official Used Car Guide Book. While the majority of the discussion was on the above listed questions, Mr. Deo distinctly recalls advising Mr. Lewis that the regulation should certainly not be changed without consultation with representatives of our dealers.

October 11–12, 1950: Throughout both days representatives of NADA endeavored to establish a contact with Mr. Lewis but were told on each attempt that he was in conference. Contact was never made.

At 4 p. m. on October 13 the Federal Reserve Board released a statement announcing that amendment No. 1 to regulation W would become effective at 12:01 a. m., October 16, 1950, and that the amendment would reduce the terms of maturity from 21 to 15 months. This allowed but 55 hours to elapse between the release and effective date, and inasmuch as this period included a Saturday and Sunday, representatives of NADA were unable to contact any member or representative of the Federal Reserve Board

October 14, 1950: NADA President Haller sent the following telegram to Chairman McCabe of the Federal Reserve System:

On October 4 we wired you as follows:

"Reports are reaching us that Federal Reserve Board is meeting to consider tightening credit terms of regulation W. Any such action at this early date, only 2 weeks after Regulation W was in effect, seems premature. We respectfully request that no action be taken on automobile terms until we have opportunity of discussing with you the effect of regulation on business retail automobile dealers."

Consequently we are astounded at arbitrary and drastic action taken yesterday without giving the industry affected opportunity to present to you facts indicating alarming slow-up in new and used automobile sales.

These new harsh terms will result in serious slow-down of entire automobile industry with grave effect on Nation's economy. New regulation W terms represent most drastic economic regulations ever forced upon a free people and we demand immediate rescission of the new automobile purchase terms as announced on October 13.

NADA received no acknowledgment of this telegram.

October 16, 1950: Early on Monday, October 16, NADA President Haller endeavored to arrange for a conference with Chairman McCabe. He was unable to contact Chairman McCabe personally, but Mr. McCabe's administrative assistant suggested that President Haller contact Governor Evans of the Board, under whose direct supervision regulation W is administered. A meeting was held that afternoon. NADA was represented by President Haller, Vice President McKay, Treasurer Dowd, Secretary Freed, and Managing Director Deo.

The Federal Reserve Board was represented by Governor R. M. Evans, Mr. Elliott Thurston, assistant to the Board, and Messrs. Dale Lewis and Theodore Pawley. Briefly, the outcome of this conference was to the effect that Governor Evans appreciated the fact that the impact of this regulation, as amended, would be severe, but he stated that inflationary forces had to be curtailed. Several of the statements made by Governor Evans to the effect that reports indicated regulation W had caused no hardship up to that time were challenged by the representative of NADA. The period between September 18 and October 16, the effective date of the amendment, was far too short to even indicate what effect the regulation would have on time sales of automobiles.

After approximately an hour's discussion, NADA President Haller appealed to Governor Evans to rescind this 15-month amendment and allow sufficient time to elapse in order to determine the effect of the original regulation. Governor Evans indicated that while he was only one of seven Governors, he did not believe there was any possibility of changing the regulation at this time.

October 17, 1950: On this date, NADA President Haller mailed a registered letter to Chairman McCabe of the Federal Reserve System, as follows:

The National Automobile Dealers Association is comprised of approximately 32,000 retail new car dealers, who represent 95 percent of the new car sales volume of the country. More than 20 percent of all the retail trade in the Nation is automotive, according to data gathered from the latest United States Census of Business. This industry employs one out of every seven persons who are gainfully employed.

As president of this important segment of the industry of this country, I wish to advise you that our entire membership is seriously disturbed over the recent harsh amendment to regulation W, issued on October 13, 1950, by your Board.

Our membership feels that unless this amendment is immediately rescinded, it will result in substantial numbers of them being forced out of business.

In view of this serious situation, we called an emergency meeting of the officers of the National Automobile Dealers Association here in Washington yesterday, and their first action was to attempt to obtain a meeting with you. Being unsuccessful in this attempt and upon the suggestion of your secretary, we met yesterday afternoon with Gov. R. M. Evans and his staff.

Our association has always enjoyed the most cooperative relationship with the Federal Reserve Board. Prior to the adoption of the original regulation W in September 1941 our association was afforded an opportunity to present our industry picture to the entire Board, and subsequent to that time, our association was consulted prior to the enactment of the various amendments to the original regulation W which affected our business.

Therefore, we were amazed at the action of the Board in issuing a new regulation W on September 9, 1950, without giving our industry an opportunity of a hearing before your Board. The terms of 21 months in this new regulation were a substantial reduction from the current prevailing terms in effect at that time.

Immediately after the imposition of this new regulation we began receiving protests from dealers in all parts of the country to the effect that the 21 months terms had materially reduced new and used car sales.

Because of the above reports and due to persistent rumors of action by the Board we wired you as follows:

"Reports are reaching us that Federal Reserve Board is meeting to consider tightening credit terms of regulation W. Any such action at this early date, only 2 weeks after regulation in effect seems premature. We respectfully request that no action be taken on automobile terms until we have opportunity of discussing with you the effect of regulation on business retail automobile dealers."

You will furthermore realize that we were again dumfounded when on October 13, 1950, your Board issued an amendment to regulation W reducing the maturity limitation from 21 months to 15 months, again without any attempt being made to consult with either our industry or our association.

It is the consensus of the dealers of the country that unless this amendment is immediately rescinded it will result in many thousands of new car dealers being compelled to discontinue their business. This arbitrary action also vitally affects every person requiring essential transportation.

The CHAIRMAN. What would you suggest be done? Is that discussed further?

Mr. MALLON. Yes. [Continuing:]

At our meeting with Governor Evans yesterday, we pointed out many facts and figures to substantiate the above statement. We appealed to Governor Evans for a rescinding of this harsh amendment, but we were told by him that, in his opinion, the Board would not change its decision at this time.

On behalf of the new-car dealers of the United States, we appeal to you for an immediate abatement of this drastic regulation until such time as your Board can conduct a hearing, where our industry will have an opportunity to present salient facts and figures from our industry for your consideration, giving the Board authentic information which we are confident they did not have, and could not have had, when this amendment was issued.

October 27, 1950, NADA President Haller received the following acknowledgement from Chairman McCabe:

In reply to your telegram of October 14 and your letter of October 17 let me say at once that I greatly regret that my previous appointments made it impossible for me to meet with you on October 16. I am sure you will understand. I am very glad that Governor Evans was able to meet with you on behalf of the Board at that time.

It is a source of real satisfaction to me, personally, and I am sure to all of the members of the Board, to have the cooperative relationship with your association that you mention in your letter, and I sincerely hope that it will be in no way marred because of policy actions which the Board feels compelled to take in the light of its particular responsibilities. I appreciate your problems just as I think you do ours. I assure you that the Board has great regard for the views of your association, and its representatives, and always endeavors to give them the fullest consideration. We will be very glad to consider any facts that you may care to give us to supplement what you have previously furnished.

While I will not undertake in the necessarily brief compass of a letter to go over again the compelling reasons which led the Board to its recent decision with respect to regulation W, I do want to emphasize that the Board undertook to take into account very carefully and paintakingly every conceivable relevant aspect of this difficult and unpleasant task with respect to the regulation. As you know, we have had the benefit of numerous consultation with representatives of various industries, including representatives of your association. The continuing information we received from the Federal Reserve Banks and other sources in all parts of the country forced us to the conclusion that we could not, in the public interest, postpone the amendment tightening the terms.

I want to reiterate for myself and all of my associates that we greatly value the cooperation which has existed and I am sure will continue to exist with you and your association in endeavoring to carry out governmental policies, the objectives of which are as earnestly desired by you as they are by us.

The definite statement made by the chairman to the effect that—

the Board undertook to take into account very carefully and paintakingly every conceivable relevant aspect of this difficult and unpleasant task with respect to the regulation—

certainly does not coincide with the actual facts.

I herewith quote from section 709, Defense Production Act of 1950:

Any rule, regulation, or order, or amendment thereto, issued under authority of this act shall be accompanied by a statement that in the formulation thereof there has been consultation with industry representatives, including trade association representatives, and that consideration has been given to their recommendations, or that special circumstances have rendered such consultation impracticable or contrary to the interest of the national defense, but no such rule, regulation, or order shall be invalid by reason of any subsequent finding by judicial or other authority that such a statement is inaccurate.

The Federal Reserve Board on September 8, 1950, announced the promulgation of regulation W to become effective 10 days later, on September 18, 1950. Accompanying the publication of this regulation in the Federal Register on September 12 was a statement by the Board that in the formulation of this regulation and—

in accordance with the requirement of the aforesaid section 709, there has been consultation with industry representatives, including trade association representatives, and consideration has been given to their recommendations.

However, it is our feeling that the above-mentioned conferences of August 2 and September 5 did not constitute "consultation with industry representatives" as stated by the Board, and was not in accordance with the manifest intent of Congress as evidenced by the provisions of section 709. Particularly is this true in view of the fact that neither of these conferences was attended by a member of the Board of Governors, and no opportunity was afforded for trade association representatives to establish the probable effect of such a regulation.

Amendment No. 1 to regulation W was released on October 13, effective at 12:01, a m., October 16. Again, no consultation was held between NADA and any representatives of the Federal Reserve Board on the subject of this amendment prior to its issuance. To keep the record straight, I wish to report to your committee that not until October 17 did this amendment appear in the Federal Register, at which time the following statement purporting to explain the Board's action also appeared:

Special circumstances have rendered impracticable and contrary to the interests of the national defense consultation with industry representatives including trade association representatives in the formulation of the above amendment; and therefore as authorized by the aforesaid section 709 amendment has been issued without such consultation.

The above-quoted statements, in view of all the facts, would appear to be a gesture implying compliance with provisions of section 709. It is certainly a fact that the experience on automobile time payments between September 18 and October 13 was not sufficient in any way to warrant the imposition of the drastic terms of 15 months provided in amendment No. 1.

During the period from September 1, up until 2 weeks ago, we in NADA felt very definitely that no emergency existed which warranted bypassing the provision of section 709. Unquestionably, it was the intent of the Congress that industry should be afforded every opportunity to present its case to any governmental board or agency concerned, prior to the imposition of any control on such industry. During the 10-weeks' period mentioned above NADA is sure that they were in a position to present facts and figures to the Federal Reserve Board that would have been helpful in arriving at a fair and equitable decision.

At the time we requested the privilege of appearing before your committee to discuss this serious problem we felt warranted in asking that all aspects of this matter be explored carefully and we had planned to show that the imposition of amendment No. 1. to regulation W upon our industry, limiting maturity to 15 months, was premature and imposed undue hardship upon our industry and upon the buying public, particularly the lower-income groups.

Since the date of that request world conditions, particularly as they apply to our country, have materially changed, accentuating the hardship this regulation imposes upon defense workers whose need for safe, reliable transportation is essential.

In view of the critical conditions in the world today, rather than impose upon the time of your committee to discuss figures and technicalities affecting any credit control on automobiles, we in NADA, the automobile dealers, earnestly request that through the efforts of your committee we will be assured of the opportunity of a full and complete hearing before the Federal Reserve Board, and that proper consideration will be given to our recommendations with respect to any restrictive regulation imposed upon our industry. It is evident that we have not been afforded such an opportunity.

Today every loyal citizen must, and I believe does, stand ready to play his part in this great national emergency.

We sincerely believe that the experience of many of our 34,000 members during World War II will be valuable in helping to establish, on a sound basis, any regulations that may become necessary.

The automobile dealers of the country are patriotic citizens, as was well demonstrated during World War II. They played a vital part in the national economy throughout that war, often under great handicap, but the fact remains that they did maintain essential transportation which was so necessary to the success of the war effort.

It is not only our sincere desire but also our responsibility to play our part in the present national emergency to the best of our ability. This can only be accomplished by complete cooperation on the part of the Congress, governmental agencies, and we, the dealers, in the automobile industry.

The CHAIRMAN. Now, Mr. Mallon, have you any idea as to how the law could be amended to take care of your statement on page 7, paragraph 3, as follows:

have materially changed accentuating the hardship this regulation imposes upon defense workers whose need for safe, reliable transportation is essential.

I wonder if the National Automobile Dealers Association, for the record, has any thoughts for relieving such hardships that may be presented to the Federal Reserve Board—and I notice all you ask is a hearing before them.

Mr. MALLON. Mr. Chairman, as I thought, in view of the present conditions, and the many duties which you gentlemen in the Congress have at the present time, that if it could be arranged so that we could appear before the Board, and discuss with them all the facts, figures, and pertinent matter which we have accumulated, and point out to them the various results in the various sections of the country, we should be able, the Board and we, in NADA, to come to a common point, and an amendment could be effected by the Board to bring about the desired results.

The CHAIRMAN. And the desired results you want for the war workers?

Mr. MALLON. That is correct, sir. Frankly, Mr. Chairman, the dealers of the country from now on are not going to be profiteers, I can assure you. As production cuts down, our overhead remains, and we have our problems, but we believe we have a great responsibility in seeing to it that safe and satisfactory transportation is put in the hands of every war worker, and everybody who is necessary to continue to provide for the national economy.

Now, we are not all war workers, but the war workers particularly need safe and reliable transportation, and we can't expect to give it to them if we are not able to sell them the class of merchandise that they should properly have to carry on their work.

The CHAIRMAN. Just speaking for myself, I do think that the military can get what they want under the law. The war workers are the next most important group. I will say that in the last war my experience on this committee was that you dealers certainly did a good job.

Do you have any idea how we can take care of the war workers?

Mr. MALLON. Yes, sir; I think if we can sit down with the Federal Reserve Board, and go over all the figures we have, and point out the experience of the past war, the mistakes that were made, and how we had to change them, how we benefited by the changes, and suggest changes at the present time, that we will be doing a very fine service.

The CHAIRMAN. Well, I think you will be, too. I can't speak for anybody but myself, but I feel certain that this committee, when we get through those automobile hearings, will surely give consideration to the requests that you have made. Your request, as I understand it, is for a hearing before the Federal Reserve Board in line with the spirit of section 709?

Mr. MALLON. That is correct, sir.

Senator ROBERTSON. I want to endorse your statement that the automobile dealers of this Nation are patriotic and rendered great service during World War II in providing transportation to the extent that the military effort permitted the manufacture and sale of cars, and I agree with the chairman that I would be very glad for you to have an opportunity to sit down at the Federal Reserve Board, and present your side of this case. Frankly you haven't presented it to us. You have complained of the regulation.

The CHAIRMAN. Would you yield a minute? My understanding, Mr. Mallon, was that the real reason you didn't present arguments on the merits of Regulation W to us was that you thought the Federal Reserve Board had issued these regulations without consultation with industry. That is what I understood.

Senator ROBERTSON. I don't know, I don't pretend to say who the Reserve Board consulted with. I know Mr. McCabe told me he had wide consultation with industry, and all the major manufacturers of automobiles before he took any action, but that is a matter that he can explain.

I want to ask this witness one or two questions, though, to develop what the Federal Reserve Board is going to tell him when this conference occurs.

First, I notice with interest that you are a dealer in Pontiac automobiles.

Mr. MALLON. Yes.

Senator ROBERTSON. I bought a Pontiac in September 1948. I have driven it 32,000 miles, and it has given me mighty good service.

Mr. MALLON. Senator, I didn't advertise the car in the statement, please note that.

Senator ROBERTSON. I didn't figure it would do you any harm.

Mr. MALLON. I appreciate it.

Senator ROBERTSON. I paid about $2,000 for that car in September 1948. How much are you going to ask for that car in January 1951?

Mr. MALLON. Well, we are going to ask less than we are asking today. Our figures disclose the fact that used-car prices are on a declining curve at the present time.

Senator ROBERTSON. I am talking about a new car that you are going to sell in January 1951. I heard over the radio last night that all of them have advanced prices again. Now, how much are you going to ask for that 1951 model, that is what you would call it?

Mr. MALLON. That is right, sir.

Senator ROBERTSON. How much are you going to ask for it?

Mr. MALLON. It is supposed to be announced in a couple of weeks.

Senator ROBERTSON. It is a four-door sedan equipped with just a heater, no other gadgets, just standard equipment.

Mr. MALLON. Those words sound very familiar. Seriously, sir, we dealers are in this position. We know the price of the car today. We are advised by the factories that the new model will be announced within 10 days, that the prices are going up, over-all, approximately 5 percent, but there will not be a definite price announced on any given model until the day of the showing, so I can't answer you.

Senator ROBERTSON. What does that model sell for today?

Mr. MALLON. It varies in different parts of the country, of course, sir. You appreciate that.

Senator ROBERTSON. Well, you are not so far from Virginia.

Mr. MALLON. Well, I think probably our price is comparable; the four-door sedan, you say?

Senator ROBERTSON. Four-door sedan, eight cylinder, heater, and no unnecessary gadgets.

Mr. MALLON. I don't carry the exact price in my head, but it is approximately $2,500 to $2,600. Where is my man? I can't carry all those prices in my head. I want the guide-book price.

Senator ROBERTSON. For the sake of argument, let us assume it is $2,600. Why are you asking $600 more for that car than you did in September 1948?

Mr. MALLON. They haven't gone up that much.

Senator ROBERTSON. Well, I am telling you what I paid for mine. You are telling me what you are asking for yours.

Mr. MALLON. Could it possibly be you were on the end of the run, and they figured it down a little, Senator?

Senator ROBERTSON. Well, in order to get quick delivery, I sent a man to the Pontiac factory and he drove it in, but he charged me the full freight rate on it. I saw the bill. He didn't charge me for his time, and he used up my tires in driving it in, and he charged me the freight rate, so that is the reason I thought it would probably be a normal price.

Senator CAPEHART. Will you yield just a moment? It seems to me the automobile manufacturers set the price of automobiles, do they not?

Mr. MALLON. Well, the manufacturer—we refrain from mentioning it.

Senator CAPEHART. We are talking about the price of cars. The manufacturer sets the list price?

Mr. MALLON. The manufacturer, I don't know as I should say, sets the list price, because the Department of Justice doesn't agree with that, so what the manufacturer does is to suggest. He sets the price of his car at the factory, f. o. b., factory, then he suggests to his dealers, in the various parts of the country, zones as we call them——

Senator CAPEHART. How long would any one of the manufacturers keep you as a dealer if you cut the price he suggests?

Mr. MALLON. Forever; but if I raised it, they wouldn't like it.

Senator ROBERTSON. What I was trying to develop was the fact that there has been a very big advance in the price of automobiles in a year and a half, and I was asking the witness why the price of automobiles had advanced.

Mr. MALLON. Well, that is because the price of material has advanced very radically, and the price of labor has advanced very rapidly. The cost-of-living index has raised. Wages have raised continuously, with the exception of one quarter.

Senator ROBERTSON. Then it hasn't been limited to automobiles. It affects everything that enters into our economy, and especially what enters into the Bureau of Labor Statistics index on the cost of living which has reached an all-time peak; isn't that correct?

Mr. MALLON. Yes, sir.

Senator ROBERTSON. Then we have inflation of a serious character, is that correct?

Mr. MALLON. Well, that is a controversial question. If it costs that much for the goods, you have to have that much when you sell it. Maybe you call that inflation, Senator, but it is necessary to get that much money in order to operate and service the public.

Senator ROBERTSON. Well, when prices advance from September 1948 to September 1949, from September 1949 to September 1950, and then in December 1950 they jump up again, and as I heard over the radio, Ford is going to jump prices by $180.

Mr. MALLON. That is only on the big Lincoln, as I understand it.

Senator ROBERTSON. Well, when prices continue to go up, do you call that inflation, or what do you call it?

Mr. MALLON. No; I can't see how it is inflation, provided there is a reason for it going up, and the reason for it going up is the increased cost of material, and the increased cost of labor involved in manufacturing.

Senator ROBERTSON. Well, this headline in the New York Times this morning, which prints all the news, I believe, that is fit to print, says, "Prices are raised on cars by General Motors and Ford. Increased cost of material and labor was cited by both. Raise is around 5 percent."

Materials are increasing, labor is increasing, and they have both been increasing for 2 years.

Now, can you tell us about your conference with Mr. Evans yesterday? That "yesterday" was some time ago, wasn't it?

Mr. MALLON. October 16.

Senator ROBERTSON. That is like the "yesterday" that they tell you when you go fishing and don't catch anything, "You should have been here yesterday when they were biting."

Have you checked the statistics on inflation since that conference with Mr. Evans?

Mr. MALLON. We have continuously sent out questionnaires, and are endeavoring to keep the records as near up to date as possible on the trend in the market. Now, when it comes to an advance in the cost of new cars, Senator, that is something that the dealers of the country do not in any way regulate.

Senator ROBERTSON. I am not questioning that. I am dealing now with whether we face a serious inflation problem or not. If we don't, you would be justified in saying certain curbs on credit are capricious, arbitrary, drastic, wholly unnecessary, and very unfair and unjust. But if, on the other hand, we face a very serious inflation threat, this situation may take on a different hue.

You said in your conference with Mr. Evans if they didn't immediately repeal this regulation, thousands of new car dealers would be forced out of business.

Is it true or not that in October of 1950, from 10 to 20 percent more new cars were sold than in October of 1949?

Mr. MALLON. Correct, and there was that much more manufactured.

Senator ROBERTSON. It is true that in 1949 the sale of new cars and trucks exceeded all previous records by over a million units?

Mr. MALLON. By over a million units?

Senator ROBERTSON. Yes; in 1949 over anything previous to 1949.

Mr. MALLON. That is right.

Senator ROBERTSON. Is it true that it is now estimated that in 1950 the sale of cars and trucks will exceed the high of 1949 by more than a million units?

Mr. MALLON. Yes, sir; that is right.

Senator ROBERTSON. Is it true that production in September had reached the figure of approximately 9,000,000 units?

Mr. MALLON. An all-time peak.

Senator ROBERTSON. Neary 9,000,000 units for that month, speeded up, of course, by the thought that after the war started in Korea, they wouldn't be able to get automobiles, and everybody that needed one, or thought at some future time he might need one rushed in to place his order with the dealer. Isn't that correct?

Mr. MALLON. Senator, what happened was this, as I see it, as we see it in NADA. When the Government first began to talk about credit controls on automobiles, there is no doubt in the world but a lot of people rushed in and bought.

Senator ROBERTSON. In my home town, the one that my boy went to see in August said, "I can't possibly deliver you before January, and I don't know about that." I understand he is now ready to make delivery, but we are not ready to buy.

Mr. MALLON. You are not alone in that, sir.

Senator ROBERTSON. In fact last summer he said "I will put you on the list, but I can't deliver, I have got so many orders ahead of yours, until some time in January, or later."

Now, you say that more cars were sold in October of 1950 than in October of 1949, yet 1949 was the highest previous year in the whole automobile industry.

Isn't it true that since the Korean War, consumer credit has been increasing at the rate of $500,000,000 per month?

Mr. MALLON. Not on automobiles alone.

Senator ROBERTSON. Not on automobiles, we will come to what they cost, but consumer credit. Isn't it true consumer credit now exceeds $21,000,000,000?

Mr. MALLON. I don't know the figures, Senator, frankly.

Senator ROBERTSON. I think they are the figures that the Federal Reserve Board will give you when you go down there for your conference. Isn't it true that mortgage credit now exceeds $40,000,000,000?

Representative PATMAN. Senator, would you mind stating the part that automobiles play in that picture.

Senator ROBERTSON. I will come to that in a minute. Isn't it true that mortgage credit now exceeds $40,000,000,000?

Mr. MALLON. Senator, we automobile dealers are not economists.

Senator ROBERTSON. No; but you have got to face economic problems.

Mr. MALLON. We have our problems in facing the conditions that exist in the automobile business.

Senator ROBERTSON. I am in sympathy with fair treatment for the automobile dealers. I want them to do business, I want them to make reasonable profits, but when you go down and challenge the necessity for credit curbs, you can't ignore the statistics on inflation, and I am trying to develop some of them for you.

Isn't it true that bank credit, since World War I, has increased by more than $18,000,000,000?

Mr. MALLON. That again, sir, I am not competent to answer.

Senator ROBERTSON. Isn't it true that bank credit, since July of this year, increased by more than $2,000,000,000? You don't know those figures?

Mr. MALLON. No, sir; I am here to talk automobiles, sir.

Senator ROBERTSON. Well, do you admit that the cost of living has reached an all-time high?

Mr. MALLON. That is the report; yes, sir.

Senator ROBERTSON. Do you know the total of the sale of automobiles, passenger cars, in money, for 1949?

Mr. MALLON. I don't recall at the minute.

Senator ROBERTSON. It was $8,000,000,000.

Mr. MALLON. Is there anything wrong about that, Senator?

Senator ROBERTSON. Not a thing in the world. Do you know how much the American public spent for liquor in the same time?

Mr. MALLON. No, sir; I only know what it cost me.

Senator ROBERTSON. They spent $8,500,000,000.

The CHAIRMAN. I think we ought to limit the questioning. The Members of the House have questions they want to ask on automobiles.

Representative BROWN. May I ask you one question before you proceed?

Mr. MALLON. Yes, sir.

Representative BROWN. Your request is a very simple one. All you want us to do is to make an engagement with the Federal Reserve so your association may present its views?

Mr. MALLON. That is our basic interest.

Representative BROWN. I believe the Federal Reserve will give you your hearing. As a matter of fact, I think the one-third payment down is right, and I think you gentlemen ought to have at least 18 months for the payments.

Now, I don't see that that would affect inflation any more than 15 months. I do know the war workers and a lot of other people cannot pay the two-thirds in 15 months, but can pay it in 18 months. Now, that is my feeling, but still we can't make the Federal Reserve Board do anything, but I believe they will give you a hearing, and I think we can get through these witnesses pretty quick and get back to our other business.

Mr. MALLON. I would like to conclude.

The CHAIRMAN. Unless there are some questions.

Representative PATMAN. Yes; I would like to ask some questions. When this bill was before our committee, Mr. Mallon, I carefully watched its provisions, because I didn't know that the Federal Reserve Board would be the right one to delegate this authority to, and I personally resisted it. Other Members of Congress resisted it.

Mr. MALLON. I recall that, sir.

Representative PATMAN. I resisted it because I was apprehensive that they would not confer with the people, including trade associations, and other organizations, which should be done—based upon the fact that we are in a democracy. Our country is a democracy and a republic, and we believe in democratic processes. The Federal Reserve Board is not obligated to Congress. The Federal Reserve Board is not obligated to the President of the United States. The Federal Reserve Board has gotten itself separate and apart from our Government. Originally the Secretary of the Treasury and the Comptroller of the Currency, they were on that Board, but over the years they have been gotten off, and now you have a Board composed of people who serve for a term of 14 years, that is their term of office. They are under no obligation to the Congress or the President. They can't be reached directly or indirectly by the sentiment of the people, and for that reason, in a democracy, I think we should have somebody directly responsible to the people, at least indirectly responsible to the people, to administer such drastic restrictions and regulations as will necessarily be imposed in carrying out and furthering the public interest, and for that reason I oppose the Federal Reserve Board having this authority. I deplore the fact that they started off corroborating everything that I said by refusing to even listen to the representatives of your industry, when I know that during the Second World War your industry cooperated 100 percent, and you furnished vital, essential transportation. We were wondering a while as to how you were going to furnish the essential transportation, but your industry solved that, and you cooperated, and I know something about your industry, and you know that I do, over the years. I regret that the Federal Reserve Board has started out by ignoring an industry that had so much to do, and rendered such great service in World War II.

Now this law expires next June 30. I think the cure for this is to place the authority under the President of the United States, somebody who is directly responsible to the people, to carry out these rules and regulations and restrictions, and I think that is the remedy, and, even if the Board does give you a hearing, I am not so sure as to what changes you might get made, if any. They can hear you, and still not hear you. Because of the fact that they started out determined not to hear you, not give you any consideration, I would be a little bit apprehensive as to what consideration you might get now.

I think the remedy is to take it out of the Federal Reserve Board and put it under the President of the United States, or somebody who is charged directly or indirectly with carrying out the will of the people as expressed in a democracy such as we have here, and there is where I think your remedy is, to get it out of the Federal Reserve Board.

Mr. MALLON. Mr. Chairman, I would like to just reply to these statements. All that NADA is trying to do is to work for the benefit of the public, the people who need transportation, and naturally in doing so we are endeavoring to obtain terms, as necessary, for the survival of the dealers. We can't afford to lose 40 or 50 percent of the dealers of the country, or there will not be enough people to furnish service to those who need transportation.

Secondly, while the Senator has mentioned the vast sale of cars, delivery of cars, may I point out, as long as it has been brought up—and we didn't intend to bring up the details here—that those cars were delivered to people who really didn't need them because the person that had their orders on our books, and expected to buy them on 24 months, we will say, or 30 months, had to cancel their orders. They couldn't buy them; but the man that had a '49, which was a perfectly good car and didn't need to trade, was the one that peaked up our deliveries, and our point is that these stringent 15-month terms are preventing cars going to that man who is necessary to the economy of the country, and to the war effort, because of his limitations and his inability to meet the heavy monthly payments.

Congressman Brown here, I agree with him. Eighteen months would improve it, but if we can sit down with the Board, and the Board will be receptive at all and give consideration to the figures we have, and permit us to point out how the automobile industry works, I don't know about mortgage loans, frankly, I don't know about bank credits, and all that—it keeps me busy keeping up with my little job in the automobile business.

The CHAIRMAN. I can only say this. Mr. McCabe is coming down here to testify, and I for one certainly will join with the others in a request that your industry be given a proper hearing and proper consultation. I presume we are all agreed on that from what I hear.

If there are no further questions, I will ask Congressman Holifield if he wishes to make his statement?

Senator CAPEHART. Just a minute, sir. We understand that your position is that all you are asking for is the right to appear before the Federal Reserve Board and state your position.

Mr. MALLON. That is correct, sir.

Senator CAPEHART. And you have said to us that the Federal Reserve Board has refused you that right to date?

Mr. MALLON. To date.

Senator CAPEHART. And all you want is a right to appear before the Federal Reserve Board?

Mr. MALLON. May I say this. In 1941 when our regulation W was about to be imposed, there was a large meeting room down there with a very large mahogany table, and on one side the entire membership of the Board sat, and we who were interested parties were on the other side, and everyone was afforded an opportunity to say to the Board directly just what they thought about the situation.

Senator CAPEHART. Let me say this. I am going to take what you said at face value, that they have refused you a hearing, and I presume the facts will speak for themselves. I know they will. But if they did refuse you a hearing, then of course in my opinion they were wrong, and they should hear your association at the earliest possible moment. I feel confident that, when these hearings are finished, they will hear you.

Senator ROBERTSON. If the Senator will yield, I am not a special pleader for the Federal Reserve Board, although so far as I know it is the only agency that has done anything to curb inflation since we passed the bill, and all the other powers under the bill were conferred on the President.

Representative PATMAN. But the President designated the Federal Reserve Board on some of these other powers.

Senator ROBERTSON. These dealers requested a hearing of the Federal Reserve Board, and after the November election they were offered a chance to have a hearing, and didn't take that offer. Is that correct?

Mr. MALLON. No; that is not correct, sir.

Senator CAPEHART. I only have one thought, and that is the law requires them to give you a hearing. Now, if they refused to give you a hearing, they were wrong.

Mr. MALLON. I want to be perfectly fair, Senator Capehart. I think the technical language does not require them to do it. It does require them——

Representative PATMAN. It was the intent of Congress. I believe every member on the committee would say it was the intent of Congress.

Senator CAPEHART. I am sure it was the intent of Congress that they give you a hearing.

Mr. MALLON. I have no doubt about that.

Senator CAPEHART. The intent of Congress was that they were to give you a hearing.

The CHAIRMAN. Or any other industry before issuing a regulation affecting that industry, unless special circumstances make that course impracticable.

Senator CAPEHART. If they refused to give you a hearing, they were wrong, and they should immediately give you a hearing.

I think the only thing before this committee at the moment is whether or not they did refuse to give you a hearing, and if they did then I think this committee ought to recommend to the Board, by resolution, that they do give you a hearing.

Senator ROBERTSON. In the latter part of October I conferred at length with the Chairman of the Board, Mr. McCabe, and Mr. Evans, and I told them I had so many complaints it looked to me like there may be something wrong with their regulation, and would they give consideration to easing it up some.

Mr. Evans told me they were going to keep in close touch with it. If they found the regulation was unnecessarily drastic, they would relax it, and we would be glad to hear industry at any time.

Now that is what he told me.

Mr. MALLON. Senator, may I emphasize this fact: that the Federal Reserve Board in their judgment, and without consultation with industry, established regulation W on the basis of a 21-month maturity, and within 3 weeks they arbitrarily cut it to 15 months, and I would like to emphasize to you gentlemen the fact that in 3 weeks' time the experience would render no indication of the effect of regulation W with 21 months' term in its effect on the industry.

Representative BROWN. Regardless of whether or not you have been heard, I think the Federal Reserve Board and your association ought to get together now. This committee doesn't want to decide whether you had a hearing or not. Some say you haven't; some say you have.

Now is the time you should get together and see if you can settle it. If not, come back here and we will pass some legislation.

Mr. MALLON. We in NADA are hopeful that through the good offices of your committee, Mr. Chairman, you will be able to effect an arrangement whereby we can sit down with the Board and endeavor to work out our problems.

Senator ROBERTSON. Mr. Chairman, I hate to take up so much time, but it is inconceivable that the Federal Reserve Board would refuse a hearing, and if the purpose of these hearings today is to request us to compel them to do so, I think the proper position for us to take would be that when we recess today you, Mr. Mallon, ask for the hearing, and if you are granted the hearing, and the other witnesses tomorrow or the next day are just to back up your request that we request the hearing, there would be no point in our continuing these hearings?

Representative PATMAN. I am not in favor of asking the Federal Reserve Board for a hearing. We wrote that into the law. The law is very plain. If they have arbitrarily gone against the law, that is something we can consider when we write a new law, or we can introduce a new bill, or an amendment to the existing law. I think these hearings ought to go ahead.

Representative HAYS. At some stage, Mr. Chairman, we ought to hear the Federal Reserve Board's statement as to the special circumstances which made consultation impracticable. I say that in the interest of accuracy.

I agree thoroughly with what has been said about the intent of the Congress, but, in the same paragraph in which we expressed our intent, we gave them the power to say that special circumstances might have made it impracticable, so that is an important part of the record, and I will say that for their benefit.

Representative PATMAN. Senator, would you yield, briefly?

The CHAIRMAN. Certainly.

Representative PATMAN. On page 6 of Mr. Mallon's statement here, he quotes the Federal Reserve Board as saying, "in accordance with the requirement of the aforesaid section 709, there has been consultation with industry representatives, including trade association representatives, and consideration has been given to their recommendations."

That is what they said one time.

Another time they gave the excuse that was put into the law where it was impracticable and they couldn't do it, so that is not consistent; is it, Mr. Mallon?

Mr. MALLON. That is what we are claiming, Mr. Congressman. We claim they have been inconsistent, and arbitrary, in changing within 3 weeks the provisions of the law.

Representative PATMAN. One time they said they did confer with you; the other time they gave an excuse as to why they did not.

Mr. MALLON. I think NADA should be given credit where the original regulation was issued for 21 months that we didn't object. It was our thought that we ought to try it out. We wanted to cooperate with the Reserve Board, and we started immediately sending out questionnaires to see what the effect of the 21-month maturity would be on the industry.

We didn't have replies enough. Nobody could get replies in 3 weeks' time, because the first week of the 3 weeks was a carry-over of business that was closed before September 18.

The CHAIRMAN. Mr. Mallon, we are very appreciative of your testimony.

That was the bell ringing, and unfortunately Congressman Patman has to be on the floor.

I have two resolutions to introduce in the Senate. In the meantime, we want to thank you for your testimony.

Mr. MALLON. We would like to thank you and your committee, sir, for your patience and attention.

The CHAIRMAN. Congressman Holifield wishes to speak before Congress meets, I understand.

STATEMENT OF HON. CHET HOLIFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative HOLIFIELD. I hesitate to take your time after the bell has sounded.

I come from the Los Angeles area of California; there are about 4,000,000 people in what we call the "metropolitan area." We have many defense plants and industries there, and we do not have the public transportation there which is found in many of the eastern cities. Therefore, the per-capita ownership of cars in southern California, I believe, is the highest in the Nation.

Now, while I was home, I was contacted by many of the automobile dealer associations, and by many individuals. I want to bring up two points here, particularly.

One point is the freight differential on the Pacific coast, and this will also apply to Texas and other parts of the Nation that are far removed from the Detroit and Flint automobile centers. It averages about $300 per car more than if it was in the area of production. Therefore, that adds about $25 a month to the average individual's car payment out there when you consider the amount of freight and the interest, so you see that there is a disproportionate burden put on the people who have to pay large freight bills, in contrast to those that are near at hand.

Now, in actual fact, I have many telegrams here which I will not burden you with, but the telegrams and signed letters show that in the month following the initiation of the 15-month regulation the average drop in automobile sales was 50 percent.

The second point I wish to make is the necessity of a longer payment period.

The average increase in monthly payments on a car of approximately $2,300 was from $75 to $110 a month. In a car in the class of an Oldsmobile, a $3,000 automobile, the payment jumped from a little over $100 to $140 a month. Most of the automobile dealers in my area seemed to be fairly well satisfied with the one-third down payment. They seemed to think that while it makes it a burden, to be sure, upon the buyer, that it is a protection to the industry, and that the people who buy new cars should put at least one-third down; but without exception, almost, they do believe that the reduction to 15 months' time period of payment has made it almost impossible for the workingmen of our community to buy automobiles.

Most of the workingmen have an average take-home pay of about $250 a month. I have in my district practically all of the big rubber plants, the big steel mills, the automobile assembly plants, and other types of manufacturing which are located on the east side of Los Angeles, and I know of personal knowledge that the average take-home pay of those workers is around $250 per month.

Now, it is axiomatic if they pay over a fourth of that amount on an automobile payment that it is too much. They can't live. If a fourth goes to rent and a fourth to an automobile, you can see it leaves only $120 a month for their family to live on.

Now, the result has been that the sales of new cars have dropped. I know of a Studebaker agent in my district whose sales dropped from 26 in the previous month to 10 in the following month.

The CHAIRMAN. Do you want to put those telegrams in the record?

Representative HOLIFIELD. No; they are not quite in shape to file, but I will prepare them and file them later, thank you.

I would like to say that I believe some corrections could be made in the interpretation of the regulation which would exclude freight from the 15 months' period. I believe that would be a fair adjustment, particularly to many parts of the country that are far removed from Detroit. I think the monthly payments of within 15 months should be increased at least to 21.

Many of our cars in the past were sold to the workers out there on 24- and 30-month payments, and it has been successful. It is an established practice among industrial workers to buy on a 24- to 30-month basis, so if a fair adjustment could be made I believe it would alleviate for the time being the hardships that are being caused in most instances, and it would also give the workers a chance to buy automobiles to get to and from work, which is absolutely necessary in these areas where they do not have public transit facilities, as you have in the eastern cities.

In conclusion, gentlemen of the committee, if the Federal Reserve Board refuses to extend the time payment period to the general public, I believe that it is imperative to give special preference to workers in our defense industries. I therefore suggest that a special priority classification be set up by amending regulation W, so that workers in vital war industries may have longer time payment periods than nondefense workers.

The CHAIRMAN. We thank you, Congressman.

Representative HOLIFIELD. In deference to the time limit, I will conclude my testimony at this point, and extend it later in the record, if I may.

The CHAIRMAN. Without objection, whatever you desire to place in the record from your constituents may be submitted.

(The telegrams and letters referred to follow:)

LOS ANGELES, CALIF., *December 5, 1950.*

Congressman CHET HOLIFIELD,
House Office Building:

Due to credit regulations, new and used car sales have dropped 52 percent. Only 11 percent of total sales financed by buyers. Average down payment on new Oldsmobile in Los Angeles is $1,000; monthly payments average $140. Freight in Los Angeles $300 higher than Detroit area.

SILVER MOTORS,
Oldsmobile Dealer,
657 South Atlantic.

LOS ANGELES, CALIF., *December 5, 1950.*

Hon. CHET HOLIFIELD,
House Office Building:

We estimate loss of business, under new regulation W, to be 50 percent. Contracts written in November 26 as compared to 46 in September. Any effort to get regulation W modified will be appreciated.

V. E. RUTLEDGE, *Buick Dealers.*

MONTEBELLO, CALIF., *December 4, 1950.*

Hon. CHET HOLIFIELD,
House Office Building, Washington, D. C.:

Regarding regulation W, we are opposed to present restrictions as regards time limit of 15 months, as it directly affects the workingman who cannot afford high monthly payments. There it has reduced our sales 30 percent.

HARRY M. OSTROM AND SONS.

LOS ANGELES, CALIF., *December 4, 1950.*

Hon. CHET HOLIFIELD,
House of Representatives, Washington, D. C.:

Regulation W causing drastic reduction in car sales. Ten new cars sold September 18 to October 18; normal sales equal 26. Used cars sold same period, 12; normal, 37. Continued enforcement of present regulation W will force car dealers out of business.

PHIL STAMBAUGH, INC.,
472 South Atlantic.

EAST LOS ANGELES, CALIF., *December 4, 1950.*

Hon. CHET HOLIFIELD,
House of Representatives, Washington, D. C.:

Request your representation in getting relief on Regulation W to a point where we can accommodate some of the 40 to 50 percent of the people in this very stable industrial East Los Angeles area who are being denied the privilege of owning a new car due to the limited payment schedule as set forth in the present regulation W.

URICH-NELSON MOTOR CO.

LOS ANGELES, CALIF., *November 23, 1950.*

Congressman CHET HOLIFIELD,
5172 Whittier Boulevard, East Los Angeles, Calif.:

The Motorcar Dealers Association of southern California and the Los Angeles Motorcar Dealers Association, representing approximately 600 new-car dealers and in excess of 18,000 employees, wish to bring to your attention and vigorously protest the action taken by the Board of Governors of the Federal Reserve System in curtailing automobile contracts to 15 months maturity.

We believe that this arbitrary restriction seriously hampers the American way of life and the national economy. To say the least, and flaunts the law as passed by Congress commonly known as the Defense Production Act of 1950, we call your attention particularly to—

"SEC. 709. * * * Any rule, regulation, or order, or amendment thereto, issued under authority of this Act, shall be accompanied by a statement that, in the formulation thereof, there has been consultation with industry representatives, including trade-association representatives, and that consideration has been given to their recommendations. * * *"

It is the opinion of our many members that the above section of the law was not compiled with by the Federal Reserve authorities, and that the lack of understanding has caused a great hardship to the general public as well as to automobile dealers and their employees. In some areas, new- and used-car sales have reportedly declined 50 percent since the imposition of credit controls of September 18. Particularly here in the Pacific Coast States, where freight rates result in greater down payments as well as higher monthly installments, the hardship on prospective new- and used-car purchasers has been especially severe.

If we are in an all-out war effort, and the matter is competently discussed and explained, we are sure the automobile dealers and the public will make whatever sacrifices are necessary. But, until such time as an effort of this kind has been announced, we do not believe that the action taken is justifiable.

We urge you to action in this matter to protect our democratic form of government and the elimination of such unauthorized action.

SPENCER T. HONIG,
President, Motorcar Dealers Association of Southern California.
ROY S. CARRINGTON,
President, Los Angeles Motorcar Dealers Association.

LOS ANGELES, CALIF., *December 5, 1950.*

Congressman CHET HOLIFIELD,
United States House of Representatives,
Washington, D. C.

Our business vitally affected by regulation W. Sales away off; relief needed. Sales August 18 through September 17, used 18, new 31; September 18 through October 17, used 10, new 17; November sales also low, monthly payments too high to permit mass buying.

MCNEIL-STANLEY, INC.

LOS ANGELES, CALIF, *October 16, 1950.*

Congressman CHET HOLIFIELD,
East Los Angeles, Calif.:

Please use all your influence against the latest application of regulation W cutting installment sale time on automobiles to 15 months. The previous application of 21 months time was sufficiently drastic to accomplish purpose. The present regulation is especially hard on your Pacific coast constituents. Due to freight differential they must pay an extra $35 per month over Eastern States. Unless the latest application is relaxed at least back to 21 months the automobile dealers will be closed out and many people forced to walk to work on war jobs. Your supporters plead for your assistance.

C. L. NASH.

HUNTINGTON PARK, CALIF., *October 23, 1950.*

Representative CHET HOLIFIELD,
House of Representatives, Washington, D. C.

HONORABLE SIR: It is urged that you contact the Federal Reserve Board and demand immediate rescission of the new terms of regulation W governing present credit controls regarding the purchase of new and used automobiles.

The effects the present controls will have are indeed far-reaching in their scope. The Nation's economy will be severely impaired as the automotive industry is the largest that exists today. It is evident no serious deliberation or consideration was given by the Federal Reserve Board in establishing the present controls, and that those who are acquainted with the facts were given no opportunity to explain what the results would be.

To give example, following are statistics regarding past sales of used cars of this dealership:

Month	Sales	Dollar volume
July	27	$14,674.00
August	24	16,575.00
September	19	11,817.00
October (20th)	9	5,935.00
Average		14,350.00

As is evident, this agency is one that could not be considered a major distributor. Nonetheless, we feel that the above figures are indicative and will prove true with all other dealers regardless of quotas or location. Both sales and total dollar volume have dropped over 50 percent from normal volume.

Without a doubt, the regulation should be corrected, and longer terms be permitted the purchaser, for reasons that you can indubitably forsee. Therefore, we again urge you to exert your influence to rectify an unjustifiable regulation that is imposing an unwarranted and inexcusable hardship on the entire automotive industry.

Yours very truly,

A. R. AHRENS.

MAYWOOD FORD,
Maywood, Calif., October 24, 1950.

Mr. CHET HOLIFIELD,
Montebello, Calif.

DEAR MR. HOLIFIELD: We urge you to protest vigorously, the action taken by the Board of Governors of the Federal Reserve System, in curtailing automobile credit.

We feel that the new credit restrictions have imposed an unnecessary hardship on dealers, and the general public. It has been the cause of new car inventories increasing beyond normal requirements, and has forced dealers into a position whereby they are offering excessive prices for trade-ins, in an effort to outbid each other for the few customers that can qualify.

It is our opinion that a grave injustice has been done to the automobile industry by this unwarranted and arbitrary action. We ask that you take whatever action is necessary to protect our "American way of life" from edicts of this type.

Yours very truly,

MAYWOOD FORD, INC.,
ROBERT J. SVITAK, *Business Manager.*

PHIL STAMBAUGH, INC.
Los Angeles, Calif., October 25, 1950.

Mr. CHET HOLIFIELD,
Los Angeles, Calif.

DEAR MR. HOLIFIELD: We, as a new automobile sales agency, urge you to do everything within your power to obtain a modification of regulation W.

The situation now existing in the automobile business is appalling. If this situation is not corrected, and very, very soon, it will not only seriously undermine our own financial status, but will reflect upon all business.

Forced restrictions are always resented, but regulation W has presented even more of a problem than that. The average man who has for years past purchased his car on the time payment plan, has so budgeted himself that it is quite normal to make monthly payments of $45 a month for 24 months. Such a figure is adjusted to his income, and he is able and willing to purchase on such a plan. Now, regulation W is requiring the same man who has allowed $45 for transportation, to pay $100 or more a month. Obviously, this is impossible. The only conclusion one can reach in view of the above is that regulation W, can, if continued, force a dealer out of business and also deprive the man who needs a car of transportation (and believe us, a car is a necessity in Los Angeles, not a luxury).

To substantiate this, our new car sales have dropped 95 percent since regulation W changed to a 15-month basis on automobiles.

This is a critical situation to say the very least. Will you please give us your cooperation in having regulation W modified?

Sincerely yours,

PHIL STAMBAUGH, INC.
DON STAMBAUGH.

OPPOSING REGULATION W

Whereas the Federal Government has put into effect by regulation W drastic restrictions on time purchases of motor vehicles which provide for a 15-month maturity maximum with a one-third down payment, in consequence of which the monthly installment on even the lower priced lines of new cars will exceed $100 a month, making it impossible for the average worker to buy a new car or a late-model used car; and

Whereas ownership of an automobile to the average worker has ceased to be a luxury and is instead a necessity to meet transportation problems in going to and from work; and

Whereas the imposing of regulation W will bring about a great curtailment in the sale of motor vehicles, particularly new cars and late-model used cars, all of which will result in the loss of employment to salesmen, mechanics, garage employees, production workers, office help and others connected with the manufacture and sale of motor vehicles: now therefore be it

Resolved, That the Los Angeles Central Labor Council hereby goes on record in opposition to said regulation W and urges that the 15 months maturity maximum be extended to at least 24 months; Be it further

Resolved, That publicity be given to this resolution and steps be taken to obtain the support thereof from other organizations, and from individuals and from our representatives in Government office.

Adopted in regular session of the Los Angeles Central Labor Council, November 20, 1950.

W. J. BASSETT, *Secretary*.

The CHAIRMAN. Is Mr. De Wolfe here, from Bronxville, N. Y.?

If you wish to be the first witness tomorrow, you may, but since you are from New York you probably want to get back home. I am sorry it is so late, but those things happen, you know, because we have to be in the Senate at 12.

Mr. DE WOLFE. What I have to say will take only a few moments.

The CHAIRMAN. We will file any statement you have in the record.

Will you proceed in your own way, sir?

STATEMENT OF HAROLD DE WOLFE, MANAGING DIRECTOR, LEAGUE OF MUTUAL TAXI OWNERS, INC., BRONX, N. Y.

Mr. DE WOLFE. Mr. Chairman, my name is Harold De Wolfe. I am managing director of the League of Mutual Taxi Owners, and appear on behalf of the board of directors, officers, and members of the League of Mutual Taxi Owners, Inc., an organization representing over 2,000 individual taxi owner-drivers in the city of New York, I wish to bring to your attention that part of regulation W, from the pamphlet, which was issued to us by the Board of Governors of the Federal Reserve System, titled "Consumer Credit," effective September 18, 1950; to the listed article known as "Taxicabs of less than 10 passengers."

In group A of this regulation, the minimum requirement for the purchase of a taxicab of less than 10 passengers is a down payment of 33⅓ percent cash, and the maximum loan that may be secured on this purchase is 66⅔ percent of the purchase price. The time limit for the repayment of such loan, which was recently amended by the Board of Governors of the Federal Reserve System, is 15 months.

We feel that this section of the regulation works a tremendous hardship on the individual owner of small metered taxicabs. This section of the regulation should be corrected or amended, so that small metered taxicabs may be placed on the exempt list.

May we cite further reasons justifying our claim:

In reviewing regulation W we find that exemptions are made for trucks, busses, funeral cars, vehicles for hire of 10 or more passengers and equipment for business purposes. Metered taxicabs are used for business purposes only. We ask why the metered taxicab has not been placed on the exempt list; why they have been overlooked.

The individual who owns and operates a metered taxicab is allowed only, according to law, to carry a maximum of five passengers. We are small-business men and when we have to purchase new equipment, which means a new taxicab, we are doing this purely for business purposes.

These metered taxicabs are used exclusively for the purpose of transporting the public at a metered rate. We are never allowed, under the regulations of the Police Department of the City of New York, to use our taxicabs for pleasure purposes. We use our taxicabs strictly for business. We cannot understand the reason in exempting trucks, busses, funeral cars and, for that matter, large corporations in the taxicab industry, but compel the individual taxi owner-driver to come within regulation W.

The CHAIRMAN. You say they exempt large owners?

Mr. DE WOLFE. Large corporations. That is, because we find a large corporation has to purchase a certain amount of taxicabs. Their loan would amount to so much that it would be on the exempt list of the regulation W.

The CHAIRMAN. I see what you mean.

Mr. DE WOLFE. The individual owner would probably require a loan of only $2,000, and would come within regulation W. Therefore, there is discrimination against the single businessman in the taxicab industry.

We would like to point out to this committee what regulation W, as it stands today, means to the purchaser of an individual taxicab. The purchase price for new taxicabs today ranges from $2,600 to $3,000 per cab. According to regulation W, we must pay one-third of the purchase price in cash. This means that we must pay from $866 to $1,000, depending on the price of the cab we select. The balance would have to be borrowed from a credit union, bank, or some other agency that provides for installment credits. The weekly payments, on the basis of a 65-week time limit, would therefore average from $27 to $31 weekly, plus the interest charges.

You can readily see and appreciate the additional hardship that is imposed on the individual taxicab owner-driver, the small-business man of America, who is desperately trying to provide his family with the necessary daily needs for decent living.

Under the present civilian defense program, here in the city of New York, the taxicab is expected to play a very important part. We feel that we can only perform our duties if we are definitely sure of operating a taxicab that is in first-class condition. If regulation W is maintained, as it stands today regarding metered taxicabs, we will find it financially impossible to be sure of having the newest and best equipment. We must be in a position, without any restrictions, to be able to purchase new equipment for our business so that the proper service may be given to the public.

We therefore ask this committee to bring this matter to the attention of the Board of Governors of the Federal Reserve System, with the purpose of having this discriminatory part of regulation W changed, so that we, the small-business man in the taxicab industry, may be free to conduct our business without having this additional burdensome financial problem to contend with. If this change were made, we would be able to arrange our credits in smaller notes and for a longer period of time on our loans. We would have more dollars for home use, which is so important in these times of high cost of living.

We trust that this committee will give this matter serious consideration, and that it will make certain the proper authorities are made aware of his discriminatory section of regulation W.

The CHAIRMAN. Mr. De Wolfe, I will be only too glad to call it to the attention of the Federal Reserve Board. I can see the possibility of discrimination where larger corporations are exempted and smaller purchasers are not. I have asked the Small Business Subcommittee to make a study of the problem.

Are there any questions, gentlemen?

If not, we will meet at 10:30 tomorrow morning.

(Whereupon, at 12 o'clock noon, the hearing was recessed until 10:30 a. m., of the following day.)

DEFENSE PRODUCTION ACT
REGULATION W—AUTOMOTIVE

THURSDAY, DECEMBER 7, 1950

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D. C.

The joint committee met at 10:30 a. m., pursuant to recess, in the Interstate and Foreign Commerce Committee Room, United States Capitol, Senator Burnet R. Maybank (chairman) presiding.

Present: Senators Maybank and Capehart; Representatives Brown, Patman, Gamble, and Talle.

Also present: Representative Harvey.

The CHAIRMAN. I will ask that the meeting come to order.

I understand, Mr. Congressman, you are in a hurry to get to another meeting.

Representative HARVEY. That is right.

The CHAIRMAN. Proceed, please.

STATEMENT OF HON. RALPH HARVEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Representative HARVEY. Gentlemen of the committee, I appreciate very much this opportunity to present the testimony that I have to offer. As Senator Maybank has said I have hearings in my own committee in the House, and am anxious to get back to those hearings.

As United States Representative from the Tenth District of Indiana, I am appearing in behalf of the automobile dealers of our 10-county area in east central Indiana.

The facts and figures to which I call your attention have been volunteered by the auto tradesmen of our Hoosier community. I shall seek to present them without elaboration. I believe they warrant your consideration because they constitute a cross-section report from the Midwest and they graphically tell the story of what regulation W, as currently in force, is doing to an important segment of the American business economy.

A total of 44 dealers is represented by the figures I have at hand. They have set forth the data requested on a simple form prepared by my own office. Seven of the group deal exclusively in used cars, but the greater number are established dealers in new as well as used cars and trucks.

During the period from September 16 to October 15, when regulation W was in operation, these dealers sold a total of 669 new cars for a total gross value of $1,294,066.60. During the next 30-day

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period, after the regulation was amended to make it more stringent, their aggregate sales dropped to 461—a loss of 208—with a value of $904,536.87, or a decline of approximately $390,000.

On a parallel time basis, the total transactions in the used-car market declined even more drastically. There, within the 60-day period, sales fell off from 1,190 units to 783, a loss of 407. This loss figure translates into $332,000.

My purpose in reciting these figures to you is not merely to substantiate the fact that the retail automotive business is suffering a severe curtailment of its activities. That fact is well known and indisputable. I am more concerned with the hardships apparently in store for the motoring public and for the many commercial activities whose welfare is closely identified with that of the great automotive industry.

From many letters written by dealers in our Indiana area, I would appreciate the privilege of quoting one in its entirety. It came to me from the city of Connersville, and I am satisfied it reflects the sentiments of auto dealers throughout the area. I believe, too, it is a rational plea deserving rational judgment.

The letter is as follows:

DEAR SIR: This is an urgent appeal for you to use your influence to bring about any possible easing of the Federal Reserve Board's credit-restricting regulation W. When regulation W was originally put back into effect September 18, we immediately noticed a serious drop-off in our used-car business. Our sales for the month of September were approximately 35 to 40 percent below previous months.

Recognizing the fact that it was undoubtedly for the good of the national economy, we, of course, were more than willing to go along with this program.

The amendment, however, that was put into effect in October brought about an additional decrease in our sales to the point that it is now becoming evident that our used car sales will suffer by a decrease of at least 50 percent. This regulation, in our opinion, is far too stringent for present conditions. Many citizens who were prospective customers prior to the enactment of this regulation are now unable to purchase automobiles because of the short-term time balance. Many of these people, of course, are employed in industries which are or will be engaged in defense production, and we feel that it is vital to the public welfare to see that something is done to make it possible for such buyers to purchase dependable vehicles. The present restrictions are as rigid as they ever were during the worst part of the last war, as far as the purchasing of an automobile is concerned, and it certainly has the appearance at least of being discriminatory against the automobile industry.

We definitely feel that these restrictions must be eased for the good of the entire automotive industry as well as the national economy and the public welfare.

That concludes my statement, gentlemen.

The CHAIRMAN. Mr. Congressman, we appreciate your interest in the matter, and we appreciate hearing from you.

Representative BROWN. Mr. Chairman, I suggest that we set one day to hear the Congressmen who may want to be heard.

The CHAIRMAN. I think it would be better for the Congressmen and Senators, because we will have a better chance to question them. We have these hearings sort of arranged in advance, but we were glad to hear you this morning, Mr. Congressman. I wish you would notify the Congressmen and Senators that we have decided in the best interest of all, we will set a special day aside for them, because there are many that want to be heard. In the meantime, without objection, I am going to ask permission to file in the record a letter from Senator-elect George Smathers, now Congressman, of Florida, enclosing a letter from the Jacksonville Automobile Dealers Association. He asked that it be put in the record.

(The letters referred to follow:)

HOUSE OF REPRESENTATIVES,
Washington, D. C., December 2, 1950.

The Honorable BURNET R. MAYBANK,
Chairman, Committee on Banking and Currency,
Washington, D. C.

DEAR SENATOR MAYBANK: The enclosed copy of a letter to Mr. Thomas Lanford, manager of the Jacksonville, Fla., branch of the Federal Reserve Bank, is forwarded for your consideration.

The Jacksonville Automobile Dealers Association sent me this copy and expressed their hope that your committee's attention would be brought to the facts contained therein.

With kind regards, I am,

Sincerely yours,

GEORGE SMATHERS, M. C.

JACKSONVILLE AUTOMOBILE DEALERS ASSOCIATION,
Jacksonville, Fla., November 24, 1950.

Mr. THOMAS A. LANFORD,
Manager, Federal Reserve Bank, Jacksonville Branch,
Corner Hogan and Church Street, Jacksonville, Fla.

DEAR MR. LANFORD: I am writing you on behalf of the 21 new car dealers of the Jacksonville Automobile Dealers Association concerning the disastrous effect of regulation W as now amended on their business.

We have compiled figures on new and used car sales and dealer inventories for the months of September and October 1950 from the actual dealer records.

For the first 17 days of September prior to the effective date of regulation W, these dealers sold 822 new automobiles and 953 used automobiles. This is an average of 58.7 cars per day for new car sales and 63.5 cars per day for used car sales for the 14 working days of that period.

For the period beginning September 18, 1950, and ending October 15, 1950, the period during which regulation W was in effect and prior to amendment No. 1, these dealers sold 986 new automobiles and 1,282 used automobiles. During the 24 working days of that period there was a decrease of 30 percent per day in new car sales and a decrease of 15.8 percent per day in used car sales.

During the period beginning October 16, 1950, and ending October 31, 1950, these dealers sold 482 new cars and 539 used cars during the 14 working days in that period. Thus, during this period new car sales declined an additional 11.5 percent down to 58.5 percent of the pre-regulation W volume, and used cars declined an additional 23.7 percent down to 60.5 percent of the pre-regulation W volume.

Thus you will see that both new and used car sales were greatly curtailed by the original regulation prior to amendment No. 1, and that after amendment No. 1 the percentage of sales has declined by 41.5 percent off the pre-regulation W period for new cars and 39.5 percent off the pre-regulation W period for used cars. While these figures are bad enough within themselves, they do not tell the full story. Many dealers are forcing sales at greatly reduced profits or no profits in an effort to move their inventory.

In addition to the above, new car stocks are building up at an alarming rate. On September 1, 1950, these same dealers had 345 new automobiles on hand in their inventory. By October 1, 1950, they had 432 new cars on hand or an increase of 25 percent. On October 15, 1950, this figure had increased to 553, an increase of 60 percent, and by the end of the first 16 days of amendment No. 1 to regulation W, these dealers had on hand 854 new automobiles, an additional increase of 87 percent, or 247 percent of the September 1, 1950, inventory figure.

For your additional information, a spot check reveals that new car sales have continued during the first 15 days of November at 58.5 percent of the September 1–17 figure, and inventories are greatly increased.

For your convenience I am enclosing herewith a summary of the above figures which I trust will be helpful.

Based on the foregoing you can see that the following conclusions are apparent:

1. In the Jacksonville area the original regulation W adequately curtailed installment credit and adequately reduced the volume of sales of automobiles both new and used.

2. That amendment No. 1 to regulation W was therefore unnecessary and the drastic hardships created by amendment No. 1 to automobile dealers in the Jacksonville area are unnecessary in order to produce the result desired by the Federal Reserve Board, that is, to curb inflation by cutting down on the volume of automobile sales and the volume of automobile consumer credits.

3. That unless amendment No. 1 is repealed, automobile dealers here will be forced to curtail employment and many will be unable to operate their businesses at a profit and some dealers will be forced out of business.

The members of the Jacksonville Automobile Dealers Association will appreciate your courtesy in forwarding the information contained in this letter to the Board of Governors of the Federal Reserve System.

We sincerely urge that you recommend to the Board of Governors of the Federal Reserve System that amendment No. 1 to regulation W so far as installment credit on automobiles is concerned, be repealed. It is apparent from the figures furnished you that fully 50 percent of persons heretofore using automobile installment credit have been removed from the market by regulation W and amendment No. 1.

We are sure that you are aware of the fact that new and used car prices were substantially depressed by regulation W during the approximately 30 days of its operation prior to amendment No. 1. We felt that the original regulation was stringent enough and sufficiently curtailed credit. We trust that after studying these figures you can agree and so recommend to the Federal Reserve Governors.

Very truly yours,

JACKSONVILLE AUTOMOBILE DEALERS ASSOCIATION,
By ALLEN L. POUCHER,
Managing Secretary and Counsel.

Sales

	Sept. 1, 1950, through Sept. 17, 1950		Sept. 18, 1950, through Oct. 15, 1950		Oct. 16, 1950, through Oct. 31, 1950	
	New	Used	New	Used	New	Used
Total units	822	953	986	1,282	482	539
Unit sales per working day	58.7	63.5	41.1	53.5	34.4	38.5
Sales per working day ... percent	100	100	70	84.2	58.5	60.5
Unit decrease	0	0	17.6	10	24.3	25
Decrease ... percent	0	0	30	15.8	41.5	39.5

Inventory of new cars

Date	Number of units	Increase
		Percent
Sept. 1, 1950	345	100
Oct. 1, 1950	432	125
Oct. 15, 1950	553	160
Oct. 31, 1950	854	247

The CHAIRMAN. The first scheduled witness this morning is Mr. Reuther. Mr. Reuther, will you come up?

Will you proceed in your own way?

STATEMENT OF WALTER P. REUTHER, PRESIDENT, UAW-CIO

Mr. REUTHER. Mr. Chairman, my name is Walter P. Reuther. I am president of the United Automobile Workers, UAW-CIO. I am appearing here in behalf of more than a million workers employed in the automobile, aircraft, and the agricultural implement industry.

I appreciate this opportunity to appear before your committee, and I have submitted a prepared statement, but I would like to take this opportunity of elaborating on some of the more essential points in that statement.

The CHAIRMAN. Without objection, the statement will be printed in the record at the end of your oral statement. Will you proceed with your comments, please?

Mr. REUTHER. I appear here today with full realization that the subject matter before your committee must be considered in the light of the world situation. I am aware of the fact that we are living in a period when free men and free institutions are being challenged by the forces of tyranny in the world. I am also aware of the fact that perhaps the American economy is freedom's greatest single asset, and what we do with the American economy can be the decisive factor in the world in determining whether we are going to make freedom and democracy secure. And I want to present my discussion in the light of an understanding of those overwhelming and compelling factors that we have to deal with.

The CHAIRMAN. I would like to say this, Mr. Reuther:

I feel certain that all the members of the committee heartily approve of your general appraisal of the situation, and we are here trying to act in the light of that situation, currently more apparent. That is also what we tried to do in the defense production bill on which your organization testified some time last August or September.

Mr. REUTHER. That is correct.

I think you have to discuss regulation W in terms of its broad implications and the broad aspects of the total economic job that we are trying to do. You can't discuss regulation W, or any other single aspect of the mobilization problem or the stabilization problem in an economic vacuum. All of these things have to be evaluated and discussed in terms of their relationship to the total economic picture.

I happen to have the privilege of representing an industry which has made a great contribution toward the creation of wealth in America. During the last war I think we perhaps produced a larger portion of war production than any other industry. And I want to say to the committee for the workers in those industries that we demonstrated that free labor could outproduce slave labor the last time, and we are prepared to demonstrate that again. We believe the American people, the workers, the farmers, the people in every walk of life, are prepared to do the kind of job that must be done.

Now, regulation W, we believe, does not facilitate doing that job. We think that regulation W makes our job harder, makes it more difficult to bring about the over-all direction and the coordination in the economic mobilization job that we have, and we believe that essentially we have to try to find a way to bring about the most effective mobilization of both our human resources and our material resources.

Our criticism of regulation W, and our criticism of some of the other things that are being done down here, do not flow from the fact that we believe we are being inconvenienced. We know that the job of defending freedom in the world is going to require a lot of sacrifice. Our objections are based on the fact that we don't believe the most realistic, most effective job is being done. It is on that basis that we want to discuss regulation W, in terms of this broad picture of how we get on with the practical job of mobilizing the economic power of America to do this job.

Regulation W, essentially, was brought forward as an anti-inflationary move, and we believe that the facts will indicate—and I intend to develop some of those facts—that regulation W, with respect to the basic job of controlling prices and dealing with the threat of inflation, does not make an important contribution. It is a very minor factor, and to rely upon that as the major anti-inflationary weapon is to flirt with disaster, in our opinion.

The CHAIRMAN. Now, Mr. Reuther, I would like the record to show that that statement is one with which I agree: That you can't stop inflation simply by regulation W. We passed a control bill here, known as the Defense Production Act of 1950, and you are very familiar with that. We thought that that control bill, if properly administered and used, would stop inflation. When the President is going to put the general program in effect, I don't know. I might say, as you know, on Monday of this week we had before the Senate Committee on Banking and Currency the Economic Stabilizer, and the next day the Price Director, and both of them have been confirmed by the Senate now. My information is that they are going to endeavor to set up some sort of control machinery which will be in the best interest of the war economy. I just want the record to show, as you know, that we certainly did our share to provide the necessary control powers—the members of this committee did—and the members of this so-called watchdog committee all took part in the hearings on the control bill that was thoroughly considered for a month last September.

Mr. REUTHER. I want to comment on that bill a little later in my testimony, and tell you what we think about it.

Now, regulation W, as I said, was advanced essentially as an anti-inflationary move. It was to try to reduce consumer credits, and therefore take the pressure off a certain kind of consumer goods.

We don't believe it is doing that; we think it is a very minor factor when other people consider it a major factor. It is also, as we have indicated, a shot in the dark. It was issued without any real appreciation of the impact it would have upon the total productive effort of this country, how much dislocation it would cause, how much unemployment, how much it would interfere with the real job of mobilizing our productive resources in the face of this challenge to the world.

It is going to bring about very serious wastage of manpower at a time when we can't afford to waste one single man-hour. We need every man-hour we have, and we need more on top of that, yet regulation W is a meat-ax approach to a very delicate economic operation.

We also believe that it tends to intensify basic economic inequities in our country. We think that it prices out of the market millions of American families who need necessities, who need the things American industry can produce. It prices them out of the markets and therefore further intensifies these very real and very substantial economic inequities in our present situation.

Now, when you rely on regulation W as a substitute for price control, you get into trouble. I think the members of this committee will appreciate the fact that there are no substitutes for price control. The only way you can control prices is to control prices.

Regulation W, in our opinion, is the product of bankers' mentality. Those people who think that you can sit up here in an ivory tower and manipulate credit, and play with all the little mechanisms that get into our basic credit structure, and in that way keep inflation under control—they are kidding themselves, and they are kidding the American people, because the only way that you can really deal with inflation is to begin to get to the guts of the problem, and that is the question: What can we do to stop prices from running away in America?

We believe that to rely on regulation W, and not to rely upon the real mechanisms, such as price control, is flirting with disaster.

Now, aside from the inflationary problem, regulation W does create some very serious problems with respect to our production and our manpower.

We believe that essentially we have two jobs: We have the job of producing all of the war materials we need to meet the threat of communism on the battle fronts of the world, and at the same time we need to achieve maximum production, within the limitations that our defense program sets, of those civilian goods that we need to maintain a healthy, functioning economy, so that we will be strong both on the home front and strong on the battle front.

We think regulation W blocks some of those objectives.

Now, I have listed in my prepared statement some of the specific things that we think represent the important elements of what we call an over-all plan and coordinated mobilization program. I am not going to take the time to go into those—I have stated them there—but I just want to say that we believe that we need an over-all, coordinated approach to our basic production problem, and that we cannot rely upon these makeshift things without getting into very serious trouble.

The CHAIRMAN. Don't you think we should go ahead and give the President that power, Mr. Reuther? I mean, to put these agencies together under one man, and not to divide the operations:

Mr. REUTHER. As I understand it, the President is responsible for making that decision. To date the President has chosen to decentralize this in a number of agencies. We disagree with that. We believe that the challenge of the hour is so great, and the situation is so grave in the world that we can't achieve any kind of over-all direction and coordination unless we have a central agency.

I have been going around the circuit in Washington, and I find that when I get up against a basic problem the person I am talking to says, "Well, that is in another agency."

Then I go over to that agency, and I talk to them about that part of the problem, and in the discussion of that part of the problem another phase of the thing comes up, and they say, "That is out of our jurisdiction. You have got to go over here."

The CHAIRMAN. I am going to agree with you that the times demand coordinated effort. Some of the Senators have the same trouble, being sent from one agency to another. All I say is we gave the President the power in that control bill to get the job done, and it ought to be done.

Mr. REUTHER. Yesterday we were discussing the question of aluminum. Aluminum is one of the materials in very short supply. We need more of it. It is going to affect civilian production, it is going to be a very serious problem trying to build adequate stockpiles of defense aluminum so we will have some security.

I happen to know that in the automobile industry we can substitute from 40 to 60 percent secondary aluminum for primary aluminum that is now being used if we could get secondary aluminum.

There must be thousands of obsolete airplanes over the country. Out in the Southwest they have acres of desert covered with those. They are completely obsolete, they have no military value. I said, "Why don't we go out and get that aluminum which is just standing there, in which people have money invested, and get that into the production stream? It will strengthen our military effort. It will strengthen our production effort."

He said, "Well, that is not in my agency." I said, "Whom do we go to?" I couldn't even find out whom I had to talk to. I am going to do that before the day is over.

My experience has been that we go over here and this fellow says, "That is out of my bailiwick." That fellow there talks about a little piece and says, "That is out of my bailiwick." You are put on a continuous merry-go-round, and we can't do the job we have got to do with that kind of basic approach. We feel that we have got to get this over-all direction, over-all coordination into our effort if we are to achieve maximum mobilization.

The CHAIRMAN. Well, it is understood, as you know, that Chairman Symington is the over-all coordinator. But on that problem, how are you going to coordinate before you get agencies set up? Only yesterday afternoon in the Senate, late yesterday afternoon, did we confirm the Price Director, Mr. Di Salle.

Mr. REUTHER. Well, I have a great respect for Mr. Symington, and I have had the privilege of working with him, but you see, in the present set-up, Mr. Chairman, he is sort of a glorified grievance committee. He coordinates and tries to unravel the controversies and the conflicts between the agencies after they happen. I would like to see a fellow directing the matter to try to avoid those things from the start, rather than try to unscramble the problem after it gets all tied up in knots.

The CHAIRMAN. I thoroughly agree with what you have said about Mr. Symington's capability, honesty, and integrity, and I hope he will be able to get the control program going that he will get the problems unscrambled, and I know he will do his best.

Mr. REUTHER. Now, we have got this kind of a problem facing us because this fight that we are in is not of short duration. It may last a generation. We can't know that. The men in the Kremlin will make that decision. No matter how long it takes, the American people are determined to see it through, but we don't know how long it is going to take, and therefore we have to plan on the basis that it may take a whole generation before we get the world straightened out and secure freedom and democracy in the world.

We have got to realize that if we move into the curtailment of civilian production of items that are basic and essential to a healthy economy, we may find that down the road, when we are putting more and more of our effort into war production, that some of the items we could be making now will be in very short supply and create very serious problems.

Now, automobile production is one of those essential items. I would just like to point out to you that during the last war we had a very serious transportation problem. War plants were dispersed, and with some of the plans that are now being discussed in the military councils of dispersing and decentralizing our whole war production effort, it is going to mean that thousands and thousands of workers are going to have to drive many, many miles to get to these factories.

We had a good example right in Detroit. Workers in the Willow Run bomber plant, where we made the B-24, had to drive 35 miles each way, 70 miles a day, just to get to work. Obviously an automobile in that kind of situation is not a luxury, it is a necessity. It is a question of how do yo get people to where you need them to do the job.

The CHAIRMAN. I think that is one problem with which these gentlemen here, who were on the committee during the last war, are certainly familiar, we all recall the terrible shortage that occurred in rubber and automobiles, and the long distances people had to travel to work. When you get to Mr. Patman's State, 30 miles would be close to get to work. Down in my State people used to go 75 miles to get there, and couldn't get there without an automobile. They don't have trains running frequently like you have here on the Pennsylvania Railroad.

Mr. REUTHER. When you get to the Southwest there where you have greater distances, automobiles are going to be more important.

Representative PATMAN. Some people in my State commuted a hundred miles, two hundred miles a day.

Mr. REUTHER. We ought to go into this with the knowledge that it is going to last a long time. We are in worse shape from the point of view of transportation facilities than we were in the last war, and yet that was of shorter duration.

The CHAIRMAN. And the plants are going to be more dispersed this time.

Mr. REUTHER. That is right.

The CHAIRMAN. And the distance is going to be greater.

Mr. REUTHER. The distance is going to be greater, plus the fact that we are going in with poorer equipment than we started out with the last time. Here are the figures.

The average age of a car now is 8½ years. In 1941, when we got ready to go into the other war, it was only 5½ years, so there is 3 years greater age on the average car in America today. That means that these cars have been used for 3 years more, and therefore are much more nearly worn out than they were before.

At present 42 percent of all the automobiles in the United States are 10 years or more old. In 1941 there were only 17 percent that old—42 percent compared to 17 percent. So when we talk about regulation W, and the impact of that upon automobile production, we are not talking about whether Mrs. Jones is going to have a shiny new automobile to park out in front of her house on Easter morning when she goes out wearing her Easter bonnet. We are talking about transportation for the mobilization effort of this country, if we are going to do our job.

The CHAIRMAN. That was the reason for our having these hearings, to get down to the basic fact of providing automobiles for people who do war work, not for people who just ride around the city. These old automobiles you are talking about are not on the good city streets. They are the ones the people are going to work in.

Mr. REUTHER. That is right. If you look in the parking lots of the biggest war plants and biggest factories in America, you will find many jalopies, and not many Cadillacs. That is what we are talking about.

Representative TALLE. Mr. Reuther, what percentage of credit would you say is involved in regulation W?

Mr. REUTHER. Well, I am not certain I understand your question. Do you mean what element of the whole consumer purchasing power is regulation W attempting to deal with, is that your question?

Representative TALLE. Yes.

Mr. REUTHER. Well, based upon the information, and I do not profess to be an authority in this field, but based upon the information which I have been given, the increase in consumer installment credit, going up at the rate of $400,000,000 a month, added only 2 percent to total consumer purchasing power.

Representative PATMAN. Does that include all consumer goods, or just automobiles?

Mr. REUTHER. This is the total of installment credit. It added 2 percent to total consumer buying power. That is what we are dealing with here, and that is what I say. This is not a question of getting control of the dog's tail and trying to wiggle the dog. It is a question of trying to get three hairs on the end of his tail to wiggle the tail to wiggle the dog. It is completely unrealistic as a practical matter

Representative TALLE. The 2 percent you mentioned, does not then relate to automobiles alone?

Mr. REUTHER. No, that is the total of all installment credit. It means washing machines, refrigerators, television sets. Automobiles probably are the biggest single item, but it covers the whole scope of consumer credits in the field covered by regulation W.

Representative TALLE. What part of the 2 percent would you guess has to do with automobiles?

Mr. REUTHER. Well, I really do not have the figures on that, but the basic argument that is true of automobiles is also essentially true of these other things. For example, the question of a refrigerator. A refrigerator is not a luxury, because keeping your milk cool and your foods well preserved so that you can maintain the health of your family isn't a luxury, that is a necessity if we are going to have a strong economy and are going to have people able to work and produce as we need to.

Representative TALLE. I agree with you fully on that point.

Mr. REUTHER. If I may, I would like to get back to this set of figures here and show you what is happening in the truck industry, and there you are really dealing not with luxuries, but with the basic question of transportation.

In 1941, trucks averaged 5½ years of age. In 1948, they were 7.8. In 1941, 19 percent of the trucks were 10 years old and over, and, in 1948, 34 percent are 10 years old or over, so that you are really dealing here with a very fundamental question of where is America going with respect to transportation of people, workers, and with respect to the transportation of goods. That is why this shot-in-the-dark approach, which regulation W symbolizes in the worst kind of a way, is a tragic thing; it begins to disclocate manpower and civilian production and essential industries that ought to be trying to turn out as much goods as possible. If these new cars can be put in the hands of people, they will be there when we need them. The only way they can be put there is that we have got to produce them, and regulation W is disrupting that effort.

The CHAIRMAN. This general situation of production, price, and wage trends confuses people. I am not one to tell the President what to do, or even to suggest what he ought to do, but it has been my personal opinion that certainly in the last month some national emergency ought to have been declared or similar action taken so that the people know, in my judgment, just such conditions as you are bringing out, the necessity for all these controls for these war workers who are going to be dispersed all over the United States. Not only with automobiles are we going to have trouble, but we are going to have terrific trouble with housing.

Mr. REUTHER. You are not fooling. That is where regulation X comes in, which I will talk about, too, if you will permit me.

The CHAIRMAN. If there was a national emergency declared, I think people wouldn't be complaining all the time about everything, and would just get down to work.

Mr. REUTHER. That is the fundamental difference between an ivory-tower-banker approach and the practical down-to-earth approach in terms of the basic problems of production, manpower, housing, and how do we get the job done. You can't meet these complex problems by some fancy credit manipulation in banker's ivory tower. You have got to come down and do this job.

The CHAIRMAN. With regulation X on housing, you have got to have sewerage and other utilities at the places where you are going to do this job.

Mr. REUTHER. You have got to look at all the pieces and see that it fits together in a total pattern, otherwise you are going to get 90 percent of the job done and find that the other 10 percent is blocking the achievement of your goals.

The CHAIRMAN. In Congressman Brown's district you are going to build a plant—it has been in the paper—that is going to employ 30,000 people. Where are they going to put them? They will have to build houses, but before they do that they will have to build sewers, water supply, and everything else. Where are the people going to come from? Eighty percent of them must come by automobile. They have only got one train there that runs a day, I think, just a small train. All you have got there is highways. Those people come from 50 to 100 miles away. As Congressman Patman says in Texas it is not uncommon for a man to travel 200 miles a day.

Representative PATMAN. A hundred each way.

Mr. REUTHER. We have a sizable membership in some of the new airplane plants in Texas. We had a plant in Dallas during the war, and I know that people drove from all around there, and it will be more so the next time.

Representative BROWN. What is your suggestion to solve the problem?

Mr. REUTHER. I want to talk about the inflationary situation, because that affects a lot of people. We can lose on the inflationary front if we are not careful.

As I say, the people who dreamed up regulation W and regulation X believed, maybe sincerely, that this was a substitute for effective price control, and it is not. The only way to control prices is to control prices.

Now, we believe that the Defense Production Act, which was passed by the Congress of the United States to control prices, had some very serious loopholes, and I would like to just point out what we think are the basic weaknesses of that law in terms of the inflationary fight.

First, section 402, in a number of its various phases, deals with and provides loopholes by which food processors can escape effective price control. We are 100 percent behind the fellow who does the plowing and the sowing and the reaping, the fellows who produce the food of America. We are in there, and we have supported them. Every time there has been a question, we have said that the farmers are entitled to a decent price for their work, because we learned in 1932, when we were on the streets in Detroit, that the farmers lost their farms to the mortgage companies because we lost our jobs, and we lost our jobs because they couldn't buy the things we made, and they were in trouble because we couldn't buy the things they raised, and we recognized that the basic economic welfare and the prosperity of workers and farmers are inseparably tied together, and we will not raise a finger to fight farmers getting their fair share. We will fight to support that. But the law, we believe, gives the processor, the fellow in between—we have said for a long while, it is the fellow in between who milks the farmer on one hand and the consumer on the other. It is the only cow in captivity that gives milk on both ends. This processor is the fellow the law permits to jack up the price of food, and food represents a high percent of the family budget. You cannot have these big loopholes so the food processor can jack his price higher and higher when food is 42 percent of the family budget. That is No. 1.

Rent control is a part we have to plug up and plug realistically, or it will get way beyond control.

There are many other aspects of the items that go into the family budget that people have to buy to maintain a healthy family life which are not protected under this act.

Then there is the question of the quality of goods. You see, if you say "O. K., it is going to cost X cents for a can of goods," unless you know what is in that can you may be getting the same can, but inside of that can you are getting only half the value although it costs the same.

You buy a suit. Suppose a suit is made of 80 percent wool, and it costs $60. They still sell it to you for $60, but they put only half as much wool in it. In other words, they are jacking the price up by getting the quality down, even though the money cost is fixed, so that these are fundamental questions of price control not covered by this act.

You take a fellow who is buying a pair of work shoes; he is not only interested in how much they will cost; he is interested in how long they last, and if he gets a pair of work shoes that have paper soles, not leather soles, and they wear out twice as quickly even though he pays the same money, he will tell you he is paying twice as much for the same pair of shoes—so control of the quality of goods is just as much a part of fighting inflation as controlling the price of goods, because the two are inseparably tied together.

We believe that that law has serious loopholes which have to be looked at and plugged.

That law says specifically in section 709 that before any price can be established on any product you have to talk to the people who make it and the people who sell it. Yet there is not a word about talking to the people who buy it. You see, now, the consumers have to have something to say in here, because price control is, really, a protection to the consumers, and the consumers happen to be the millions of American families who are going to have to do this job, and who can't do this job unless we protect their economic position, because if inflation robs workers of their living standards it is going to weaken our economic power to produce the wealth that has to be produced.

We believe that there ought to be a very good look at that. You know what happened in Detroit yesterday—or the day before yesterday. General Motors raised the price of their cars; Ford followed suit very quickly. I never saw such quick action before in my life. Ford was right behind them—three steps. The steel industry pulled the trigger on this chain-reaction inflation, completely unjustified. These people, in the face of their responsibilities for themselves and for the people of the world who are fighting for every decent human value in life, have just failed to accept their responsibility when they pass these increases on, because they know if United States Steel won't absorb the cost of wages out of their profits, how can the little man down the line, who makes small items from steel—how can he expect to do it? This thing is going to start piling up until we get right around the whole cycle again, and it gets us into a very serious spiral.

We came right out and said we think the auto industry should not have done this. Even though the steel industry was wrong, two wrongs don't make a right. When Ford followed General Motors, we said three wrongs don't make a right. Yet here we are, drifting. We are not getting the effective price controls we need.

Now, the profits of these industries will absorb most of these things. I am using a set of figures which illustrate that, and General Motors is, of course, an extremely profitable company. They made $503,000,000 in profits in the second quarter of 1950; in 3 months they made $503,000,000 in profits. Now, we got a wage increase out of General Motors, some pensions, and medical program benefits that cost them roughly $53,000,000 in that quarter, so that they came out with $450,000,000 in profits after they paid for our wage increase. They could have reduced in that quarter, the second quarter, the price of all their products by 18 percent, which is $300 on a Chevrolet, and still have made profits after taxes on their investment of more than 10 percent.

Now, I say in the face of that kind of thing that it is just a crime that companies are raising the price of their products, and starting this inflationary spiral going again.

I think it is inexcusable, and can't be defended by any moral or economic standards that are rational, in the face of the world challenge that we face in this situation.

Senator CAPEHART. Would you recommend the Government freeze all prices and all wages at existing levels?

Mr. REUTHER. I certainly would not.

Senator CAPEHART. Then what are you talking about?

Mr. REUTHER. I am talking about a very practical——

Senator CAPEHART. What are you complaining about?

Mr. REUTHER. I am not complaining. I am stating facts. I am stating, Senator Capehart, that we have to get our economy under control.

Now, I am not foolish enough to think that you can talk about wages and profits and prices—talk about profits and prices without talking about wages, but the question is, how do you get the equity into this economic picture of ours? If you freeze prices up here, and wages here, you do not have equity—and that is precisely where the situation stands today. You look at the pay envelopes workers are taking home—look at prices—and see what has happened to prices since Korea, and see what has happened to wages.

You have to get equity into this situation, and after you get equity between wages, prices, and profits, you have then to find out how free people in a present society, who are making their contribution in the production of wealth and the items we need, can participate and get their equity out of the fruits of advanced technology.

Senator CAPEHART. Let me ask you one other question: Would you recommend rolling back prices and wages to the day that the Korean War started?

Mr. REUTHER. My position is simply this: We in labor—I am talking now for myself, and I represent 1.2 million workers in three basic industries, and I speak for those workers—our position is that we want to take effective steps to control inflation, and we are for price control. We know that there must be a relationship between wages, prices, and profits. We are going to fight with all the power we have to get equity, because we think the only way you can mobilize a free people is on the basis of equality of sacrifice. We don't want to make money out of inflation. That is why back in 1945, Senator Capehart—it is a part of the history of industrial America which everyone ought to think about and look at, sometime—we fought for 4 months a costly strike over a very fundamental principle. In that strike we said we don't want one penny of a wage increase that will increase the price of cars, because we said we don't want to make progress at the expense of the community; we want to make progress with the community, and if you get a wage increase and then a price increase, all we do is rob Peter to pay Paul. We don't want more money; we want more purchasing power, and that was the fight in 1945.

It was that fight that laid the basis for what is the basic wage policy of our union, which we incorporated in the General Motors contract of 1948. What is that contract? That contract now covers more than 750,000 workers—Ford, Packard, and dozens and dozens of other companies.

We said, one, if inflation raises the price of goods, a worker is not responsible for that, so he gets a cost-of-living adjustment. If prices go down, and they did go down and our wages were lowered at times during our 1948 contract, we didn't bellyache. We figured the few Commies in our union who were still hanging around in a few spots would try to make trouble. We went out and said to the workers: "Look, when you got an increase we told you that didn't mean anything because if it takes more money to buy the same goods, and you have more money, you are still going to buy the same goods," and when the price index went down and we got a 2-cent cut, we said "That is good; we would like to see it go way down, because you then could not only buy the same goods with your pay, but the few dollars you have in war bonds would be worth a lot more than if prices keep going up higher and higher."

We took that reduction philosophically. When prices went up since the Korean situation we have gotten 8 cents in General Motors, 8 cents in Ford, 8 cents in dozens of other companies; we got 5 cents at the September index, we will get 3 cents for the December index. That doesn't make us happy, because those workers are being paid in wooden nickels. They can't buy a single thing more.

Senator CAPEHART. In that circumstance, why wouldn't you be in favor of rolling prices and wages back to the time the Korean War started?

Mr. REUTHER. What about a worker who was way behind at the time of the Korean trouble?

Senator CAPEHART. I presume you would have to have a method whereby you would take care of hardship cases. You always do in any piece of legislation.

Mr. REUTHER. Not just hardship cases; it is a question of equity. It isn't a question of where a fellow is living on a submarginal diet. It is a question of equity. When you talk about mobilizing people, I went through the last war and worked on this matter. I was on the Manpower Commission here in Washington, and the War Production Board, and when I went out I said to the fellows in the shop—really on the production line, getting out the weapons with which our boys were fighting on the battlefronts, I said to them: "Look, fellows, everybody is making a sacrifice." When a man feels that everybody is tightening their belts, he says, "I will tighten mine notch for notch." He doesn't care if his tongue hangs out when he tightens the last notch when everybody else is doing it, too, but he doesn't want to be played for a sucker.

That is what I mean by equality of sacrifice.

Senator CAPEHART. Isn't that the virtue of freezing all prices and wages as they existed on the day war was declared?

Mr. REUTHER. All I can say is there are two elements with which I agree completely—speaking only for my union. One: With respect to wages as they relate to the cost of living, we are willing to have our escalator clauses. They are not inflationary. I read Mr. Valentine's testimony the other day and he just hasn't thought about this enough, because how could he say that the wages pushed prices up there? What did it was that the prices went up, and our wages merely followed prices. He doesn't understand.

One. We insist upon the protection the escalator clause gives us, and that is to make certain we are not penalized by inflation in our living standards.

Two. We insist upon the right to make progress, based upon realizing our equity out of the increased production made possible by advanced technology. That is what we say. On that basis, we are prepared to work this thing out, because we think that is fair.

We think this is realistic; we think it is the key to economic stability.

Senator CAPEHART. One other question:

Do you think the Government at the moment should invoke, under the 1950 Defense Production Act—that is the act we are considering here—should invoke price and wage controls over all, completely, straight across the board?

Mr. REUTHER. I think the first thing you have to do is get prices under control, and then sit down and look at the wage problem in terms of equity.

Senator CAPEHART. What you are saying is that they should control prices at the moment, but not wages?

Mr. REUTHER. Sure; because it is the price factor that is running wild. The General Motors and Ford pictures indicate that. We didn't negotiate a wage increase with General Motors since the Korean War, but we got 8 cents. Why? Because the BLS Index, the cost of living, is running wild. You have to do first things first. You have to get the price problem under control, and then sit down and talk about the wage picture.

Senator CAPEHART. Would you recommend, then, that the President or the Congress invoke a complete, 100-percent price control at the moment, but not wage controls?

Mr. REUTHER. No; I would recommend that he invoke, first of all, broad, selective price controls so that the machinery to do the pricing job could be put into motion, and then broaden it as tight spots develop in other parts not controlled, because it is a tremendous job.

Senator CAPEHART. But not selective wage controls?

Mr. REUTHER. No; and then sit down and look at the wage picture from the point of view of equity.

Representative BROWN. Do I understand you to say that if we have selective controls on certain commodities you don't want to put it on labor that produces that commodity?

Mr. REUTHER. What I am saying is that the basic problem now, and the reason we are getting into trouble in the inflationary front is that we are not controlling prices, and in most cases workers are fighting to try to keep up with that price movement.

The first thing you have to do is get control over the prices, and then sit down and look at the wage picture from the point of view of equity.

Representative BROWN. You remember well that labor came before Congress and requested increased prices on producing steel during OPA days. Within 2 weeks the steel industry came in and requested an increase. The steel industry is the richest industry in the world—and those requests destroyed OPA.

Mr. REUTHER. I remember that distinctly; it was in the spring of 1946.

Representative BROWN. I took the position at that time that if you increase the price of steel you would have to increase the price on all other commodities.

Mr. REUTHER. That is the time when we were fighting a 4-month strike on this principle of wage increases without price increases, because we knew—you see, there is no economic Santa Claus. There is no use kidding workers. We know that the only way you can get a higher living standard is not by manipulating wages and prices but to create more wealth, and then get your share of that wealth.

We want wage increases without price increases. We want more purchasing power. We want to buy a bigger piece of this big economic pie in America, and right now the whole question is that you have prices up here, and wages down here.

Now, if it were reversed, if wages were up here and prices down here, people wouldn't be talking about freezing that relationship, but the wage earner is always on the short end of things. Why? Because a man who sells something, who sets the price, can sell that on his own initiative. General Motors and Ford did that very well the other day, but a worker can't set his wages. He has to negotiate that with the other party; he has to get agreement.

Therefore, the price situation is also up here ahead of the wage situation, and when you talk about freezing everything, you are talking about freezing very serious economic inequities into our economic set-up. You are talking about freezing prices here and wages here, and nobody is going to go along with that. It won't work. It is not fair. It will disrupt your basic economy.

The CHAIRMAN. Why can't they work out these inequities? There are not inequities everywhere. I think we will all admit that.

Mr. REUTHER. The inequities are greater than you realize, because of what has happened to the price structure since Korea. We didn't have that problem with General Motors. Our wages came right along.

Representative BROWN. Now, when you work out a formula to control prices, at the same time you ought to work out a formula to control wages, and you should put them both in force at the same time, not put prices in force and then wait on labor.

The thing to do is to get it all settled before we do anything. Work out the inequities before we start.

Mr. REUTHER. Well, that is a pretty big job.

The CHAIRMAN. That is true.

Mr. REUTHER. It isn't simple.

Representative BROWN. That is the fair thing to do.

Mr. REUTHER. My point is you should do first things first.

Representative BROWN. Let's get the formula for equity before we put it in force.

Mr. REUTHER. You have to get equity.

Senator CAPEHART. Let me ask you this question:

All things considered, was there a fair relation between prices and wages and profits in your industry before the Korean War started on June 25?

Mr. REUTHER. Was there equity?

Senator CAPEHART. Yes.

Mr. REUTHER. No; there wasn't complete equity. I think that we had done a better job than any of the other big groups.

Senator CAPEHART. You feel that there was near equity in your industry; that is, the industries where you had the unions?

Mr. REUTHER. With respect to the wage-price problem, I think the General Motors formula more nearly establishes equity with respect to the right to improve; like the annual improvement factor, and that sort of thing, but we do not believe we have gotten our full share.

Senator CAPEHART. But you weren't satisfied with the equity even in that instance.

Mr. REUTHER. On the wage-price picture, I said I thought the General Motors formula was a satisfactory thing.

Senator CAPEHART. All things considered, was there a fair relationship between wages and prices and profits in the industries where you controlled the unions as of June 25, when the Korean War broke out?

Mr. REUTHER. Let me put it this way:

With respect to wages and prices, we accept the General Motors formula as being a reasonably equitable thing, but with respect to wages and prices and profits, we think the profits were just scandalous. I indicated what General Motors made in the second quarter—$503,000,000 in 3 months—and what they could have done.

Senator CAPEHART. I am talking about June 25, the day we entered the war.

Mr. REUTHER. Well, this second-quarter period took in the month of June. It was the second quarter of 1950.

Now I think that gets into this whole question of taxes. You can't discuss economic equity just in terms of wages and prices and profits; you have to talk about taxes.

The CHAIRMAN. Well, a large part of that profit might go with this new tax bill.

Mr. REUTHER. I am for a very much larger share going than is now contemplated, because I think there again you begin to deal with the question of equity, and equity is the thing that either does or does not get people pulling together.

A fellow will put up with just about anything if he knows everybody else is pulling their part of the load, but when he feels he is carrying his share and the other fellow's share, too, you are in trouble.

That is what makes America great, that people have fought against injustice; they have fought for equity and fairness.

Let's consider the tax picture, if we may:

We have said all along the tax structure has to be based upon equality of sacrifice, and ability to pay, and taxes ought to reflect the ability of each economic group, whether it be an individual or a corporation, to make its contribution.

Now, the people at the low-income level, the very people that regulation W prices out of the market, the very people who get in the most serious trouble because their incomes are low, are currently paying the same rate of taxation they paid during the war. You have reestablished—Congress has reestablished—their tax rate in line with what they paid during the war. Those are the people of under $5,000 income.

People over $5,000 are paying only 23 percent as compared with 29 percent during the war. The loopholes and everything else——

Senator CAPEHART. Which war are you talking about?

Mr. REUTHER. The last war.

Senator CAPEHART. The one we are in now, or World War II?

Mr. REUTHER. I am saying currently that income groups of under $5,000 are paying the same rate of taxes now as they paid in the last war. People $5,000 and over, the upper income, are paying 23 percent, as compared to 29 percent.

Senator CAPEHART. I think that is correct.

Mr. REUTHER. That is No. 1.

Now let's look at corporation taxes. Corporations are earning about 60 percent greater profits now than they did during the war period, and their profits during the war were very high. They are making now, in the year 1950, at about the rate of $40,000,000,000 a year profit, before taxes. Next year they will have more than $20,000,000,000 after taxes; as compared with $4,000,000,000 before the war, 1936–39, the base period, they were making around $4,000,000,000 after taxes, and during the war they were making about $10,000,000,000.

The excess profits tax is siphoning off about $3,000,000,000, and it ought to be increased to at least $5,000,000,000. Now, if the fellow who works for General Motors finds that the corporations are paying higher taxes, and paying their share, he is going to feel better about it than if he finds that the top-income people are paying less than they paid the last time, but the little guy is paying the same, and the corporations are paying less than they paid last time.

You are just going to have to get some equity in this, or you are going to have trouble. Everything is relative. You ask a man to sacrifice, and his sacrifices are going to be measured by what the other fellow is doing. I will say the American workers will make whatever sacrifice is necessary, but they are going to fight with all of their power to see that that sacrifice is made on the basis of equality, because that is the only way it can be done.

Representative BROWN. Do you believe that, if price controls are put into effect, wages stabilized equitably with reference to existing prices, that wage controls might well be invoked then?

Mr. REUTHER. If you can get into it the equity that I am talking about with respect to wages and prices, and also the equity in terms of this improvement factor—we don't want just to freeze them. If corporations get the benefit of advanced technology, the worker should get his share of that. You do that, and I say for my union we will take that kind of approach, because we think that makes sense.

Representative BROWN. I think you made a good statement, so far as equity is concerned, but I think we ought to start this formula on both at the same time.

Mr. REUTHER. All I can say is, gentlemen, the hour is later than you realize.

The CHAIRMAN. I agree with Congressman Brown, and what you say about prices running ahead of wages. But since Korea on, suppose we don't stop somewhere with some sort of a freeze, aren't prices going to run even farther ahead of wages?

Mr. REUTHER. If the runaway price is what is pulling our economic cart up on that incline, let's get hold of the horse and stop the horse. Don't talk about stopping the wagon. Get the horse that is pulling the wagon.

The price is the key to the thing. We have to do first things first. I am not trying to kid anybody. I say that any labor leader who says you can talk about wages in a vacuum without relation to the price-profit-taxation factor is kidding himself and kidding the workers he represents.

I am not saying that. I say you have to talk about three basic factors in our economy: Wages, prices, and profits. They have to be talked about together. It is the question of the timing, which step do you take first, and how do you begin to deal with first things first, so you begin to get it in proper balance. I know it is an easy thing for a labor leader to say: do all these other things; control prices, tax profits, control rents and all these other things, but don't talk about wage controls—I know that is a simple thing to do. I am not doing that; I don't intend to do that.

Senator CAPEHART. Let me ask you this question:

When the 1950 defense production bill was being written on three different occasions I offered an amendment in the committee to the bill, and it was defeated each time, to freeze prices at existing levels at that time, and not freeze wages.

If my memory serves me correctly, at no time did you come to my rescue and say that was a good thing that ought to be done. In fact I think it was just the opposite.

Now, why weren't you in favor of it three months ago?

Mr. REUTHER. I am not familiar with the amendment that you submitted there.

Senator CAPEHART. It was in the newspapers—every newspaper in the country. I offered the amendment three times. These gentlemenn here will vouch that I offered the amendment to freeze all prices and not freeze wages, but nobody came to my rescue.

Mr. REUTHER. Would you be willing to freeze all prices now, and then get into this whole question of equity as to where the wage thing ought to come?

Senator CAPEHART. I would certainly be in favor of freezing all prices at existing levels, even though you didn't freeze wages at the moment, in order to get something going there that would stop inflation.

However, I think we have advanced to the point now where we are in a full-fledged war. You see, there is another factor you must keep in mind here: While you represent a million men—and you do an excellent job in representing them—we are also going to have several million men now in the armed services.

Now, what about a little equity for them? They are working for $75 or $80 a month. They are out there—they are still Americans, you know—and they are men out of your shops.

Mr. REUTHER. That is right.

Senator CAPEHART. And they have just been picked up momentarily from the factories of the United States, and the farms, and placed in the armed services at much less wages than they were getting in their jobs.

Now, aren't they entitled to as much pay for fighting as you and I are for working at home?

Mr. REUTHER. I am for giving them their full equity. I don't think we give them enough, nor their families enough consideration, who stayed behind, and I don't think we give them all the things they are entitled to.

There, again, that is a question of equity. You will find that the labor groups will go the limit in giving the men in the armed services their full equity. But, comparing the GI in Korea with some of these corporation executives, do you not think the inequity there is a much more drastic thing than between a fellow doing 40 hours in a shop? The factor of inequity is the key to the question. Unless you are prepared to deal with that realistically, we are in trouble.

Senator CAPEHART. Do you think it is possible now to control inflation in this country without the Government controlling prices?

Mr. REUTHER. I do not. I think that is the basic weakness to date in our fight against inflation. You can't control our economy unless you begin to develop effective price control as the key.

There are other things: Taxation is a part of it; all of these things, but the guts of the thing is price control, and that is where these people who dreamed up regulation W have gotten us in trouble, because they thought that would do the trick without price control.

The CHAIRMAN. I want to say this, please:

I just received a note from the Senate, and I am going to have to ask to be excused, and ask the vice chairman to take over, because we have the rent-control bill coming up at 12 o'clock, as you know.

As chairman of the Banking and Currency Committee, I have to be there.

Production is a great item in this argument, too, and during the last war, of course, the unions and all labor went along on the basis of a 40-hour week. From what I understand, labor is going to be so short, from what I have been told, I wish you would put something on the record as to your judgment about the advisability of a 48-hour week.

Representative PATMAN. Before you leave, I would like to know something about the parliamentary situation. Will you meet tomorrow morning at 10:30; the same time?

The CHAIRMAN. Yes; I understand so.

Representative PATMAN. And who will you hear tomorrow?

The CHAIRMAN. The Federal Reserve Board Chairman.

Representative PATMAN. And then the automobile associations after them?

The CHAIRMAN. If it is the wish of the committee.

Representative PATMAN. And, if it takes up more than the morning, we will put the national association over to Monday, and the trade associations—let them go with the national, and not have each State come in.

The CHAIRMAN. We have Nebraska on the list here today, and of course the president of the organization came here from Nebraska, and I hoped that he would file his statement. It is rather embarrassing, since several State organizations have asked to testify, and we figured we wouldn't hear 48 State organizations, but propose to rely upon the national association to present the case for the State organizations, too.

For your information, we scheduled this gentleman. I don't know how he feels about it.

The next witness is the Commercial Credit Co. of Baltimore, Md.

Mr. REUTHER. Mr. Chairman, I will move along quickly, if I may.

The CHAIRMAN. I don't want to rush you too much, but the rent-control bill is coming up. The time for debate is divided between myself, as chairman, and Senator Bricker, and I have to make arrangements for speakers on behalf of the bill in the Senate today.

Representative BROWN. Our rent control bill comes up in the House, too, this morning, the first thing.

Senator CAPEHART. Mr. Reuther, I would like to ask you this question:

The President, Mr. Symington, Mr. Valentine, the Secretary of Labor—have any other high Government officials discussed with you the best method of stopping inflation during the last 90 days?

Mr. REUTHER. I met with Mr. Valentine with a committee from the CIO, where we talked about it in general. We never really got into these things, because he was new to the picture, and sort of feeling his way.

I have talked to Mr. Symington briefly about this general problem. I talked about war mobilization primarily, but indicated to him this inflationary problem was a serious part of our total effort.

I have not seen the President for some time, and have not discussed this question with him.

Senator CAPEHART. Is it your opinion that the high Government officials are making the necessary plans, adopting the necessary policies at the moment, to control inflation and to put into effect the 1950 Defense Production Act?

Mr. REUTHER. It is my opinion that the administration does not have adequate tools with which to do this job properly, and it is also my opinion that they are not using the inadequate tools that they have to the best possible use.

Senator CAPEHART. You mean by "adequate tools," manpower?

Mr. REUTHER. No; I mean the price-control law that Congress passed. Because it has these very serious loopholes that I pointed out, it does not really control the price of food, because of the processors' loophole; rent control is wide open, and the quality question is not nailed down, and so forth.

I do not believe that the President has the kind of adequate tools to deal with inflation that he should have. I also do not believe that some of the agencies he has set up are using even the limited tools they have as effectively as they might be used.

Senator CAPEHART. You feel that rent control should be continued?

Mr. REUTHER. I definitely do.

Senator CAPEHART. You feel it likewise should be changed to reflect 1950 costs, or do you think it should remain on the basis of the rents being frozen as of 1940?

Mr. REUTHER. I think, where you can really justify adjustment, machinery to make those adjustments should be provided; but I don't think you should open the floodgates, because I think then you will get in serious trouble. I am for the extension of rent control, because I believe unless we get it we are going to have very serious war-housing problems in the big industrial centers.

Senator CAPEHART. Well, my question is—or thought is: You are for rent control, but you understand that rent control—the present law, of course—is based on freezing rents at the rentals of about 1940.

Now, you know, of course, and we all know, that wages and costs and profits and everything else have gone up materially since that time.

Don't you think that, if we are going to extend rent controls, we should do it and write a new law, and be realistic about it, and base rentals on 1950 costs?

Mr. REUTHER. Well, I think, Senator Capehart, if you will get into it in detail, you will find that a lot of people renting homes today are doing a lot of things in addition to paying rent. They are redecorating, fixing this up, fixing that up, and doing a lot of things at their own expense that the owners used to do before rent control was put in effect.

Senator CAPEHART. I think there are isolated cases of that kind.

Mr. REUTHER. It is a pretty general thing.

Senator CAPEHART. What is your answer to my question?

Mr. REUTHER. The fixed thing is the better way to do it. I think there has to be machinery for hardship cases.

Senator CAPEHART. You are opposed to rewriting the bill and facing realities as they exist?

Mr. REUTHER. I think you are going to open the floodgates, and I am opposed to opening the floodgates. I am for machinery to meet hardship cases. I would think that people owning great, big apartment houses are not hardship cases. They are getting by, all right.

Senator CAPEHART. Why do you take that position when you have been standing here all morning, and no one, certainly can ever disagree with a man who stands on principles and equity—you have been talking about equity for the worker and equity for the farmer; but, as to the 7 or 8 million small property owners of the United States, you don't seem to be much interested in equity for them.

Mr. REUTHER. The small property owners are not the problem. You just go into New York City and find what percentage of the apartments in New York City are owned by small property owners. I am for protecting the little fellow who has a hardship case, who maybe saved all his money and bought a new duplex, lives in one half and rents the other half.

Senator CAPEHART. There is a lot of that.

Mr. REUTHER. I am for protecting that fellow by hardship machinery, but I am not for using that fellow who owns the duplex as a nice front for the fellow who owns apartments in which 25,000 families live to hide behind to get a rent hike.

Senator CAPEHART. Your thought, as I gather, has been that the perfect arrangement, of course, is equity between wages, prices, and profits; and no one, certainly, can quarrel with that.

Now, it seems to me as if Congress has the same situation to solve here with respect to rent; to get equity between the property owner and the wage earner, and the man who pays the rents and the profits. We have a law at the moment, of course, which was based upon 1940 realities, meaning 1940 costs, and so forth.

My question was: Don't you think that if we are going to continue rent control, and we certainly will have to continue rent control if we are going to continue to control wages and prices in the United States, that we ought to do it on a realistic basis in order to maintain that equity that you have been speaking about, and there are hundreds of thousands of former wage earners that saved money and bought a little home or bought a duplex, and are now renting, and my observation in my State has been that they are the fellows who are really suffering under existing rent control. It isn't the big fellow in my State; it is really the little fellows who suffer.

Mr. REUTHER. As I say, I am for the kind of machinery that would make it possible to work out equitable adjustments for the little guy, but I am opposed to opening the whole thing, because I know what will happen. You will get the floodgates opened up, and the big real-estate interests, the people who own millions of dwellings, will get the benefit of what looks like an attempt to give justice to the little fellow.

Senator CAPEHART. It looks to me like your philosophy is the big fellow is always dishonest, and the little fellow is honest.

Mr. REUTHER. It is a matter of equity. There is a difference between honesty and equity, Senator.

Senator CAPEHART. The big fellow is inequitable?

Mr. REUTHER. The fellow can have a million dollars and be honest.

Senator CAPEHART. And he could be equitable.

Mr. REUTHER. If you were talking about the fellow with $100, he might be honest, too, but you are talking about the difference between a million dollars and a hundred dollars, not the difference in honesty or dishonesty. They are two different things. I am for the little guy.

Senator CAPEHART. I understand that. Your unions deal with the extremely large corporations in America. You deal with the biggest.

Mr. REUTHER. That is right.

Senator CAPEHART. And I don't know that you have any unions dealing with the smallest manufacturers, and small employers, of which there are literally tens of thousands, and you are inclined, of course, in your thinking, to think in terms of firms that do a billion dollars' worth of business a year, rather than firms that do $50,000 or $75,000 or $100,000 a year, and one can well understand that, because you are in that atmosphere.

You deal in that sort of thinking, and not with tens of thousands of small firms in the United States.

Mr. REUTHER. We have a lot of small firms, but we do have the bigger ones; I agree.

Senator CAPEHART. You think in terms of the big fellow.

Mr. REUTHER. That is right.

Representative BROWN. Mr. Reuther, I want to congratulate you on this escalator clause.

Now, if we could ever get equity for labor and for business, and get that adjusted properly, then I think your escalator clause is a grand one. You put a lot of study in it, and I want to congratulate you on it. It is fair.

Now, do you wish to comment on the 48-hour law?

Mr. REUTHER. The 48-hour law, or the 48-hour week?

Representative BROWN. The 48-hour week.

Mr. REUTHER. There is no question that before this job is completed we are going to have to work more than 40 hours a week, and I don't think there is any argument about that.

We worked longer than 40 hours the last time, and are going to have to do it all over again. I think you will find the American workers prepared to work as many hours as are necessary.

The point of controversy is: do they get paid overtime for the hours beyond 40 in the week, and beyond eight per day? That is the whole controversy. It isn't whether they are willing to work more hours; the question is will they get their overtime compensation?

There again I take the position that so long as corporations are making profits out of these workers' labor, the workers are entitled to their fair share of the extra wealth that is created.

When you increase the workweek from 40 hours to 48, you are increasing the number of hours 20 percent; that is what the increase is in the number of hours. You are increasing the hourly wage about 8.4 percent per hour. That is what the increased cost is.

Now, that means you are getting 20 percent more production, but the hourly wage bill is increased only 8.4 percent. Actually, we can bring you the statistics to prove that the ratio of corporation earnings goes up very fast in a period of overtime hours, because the over-all cost of operation, the normal carrying charges, remain fixed, but they are getting more production, 20 percent more production, over which to spread those fixed overhead charges.

It all gets back to the question of equity again. If the companies are going to make higher profits out of overtime hours, then the workers are going to get their overtime provisions. There is no question about it. At the point where American industry is prepared to say "We won't make any profits on any hours worked," then at that point you can talk about the workers working their overtime without any overtime.

Senator CAPEHART. Let me ask you this question: Do you think that a man working, building a tank for the boys to use in fighting in Korea or some other foreign country, is any more entitled to overtime pay than the boy is over in Korea, some place, who is driving that tank, or using that tank?

Mr. REUTHER. No; I don't. I do not. I do not think a fellow on the production line is entitled to one consideration that a fellow on the fighting line doesn't get, but that is not the problem. The problem is this: let me talk about a tank plant. Chrysler Corp. made tanks during the last war, the M-4. They made them in the Chrysler tank arsenal. Now, you have to compare the worker in the Chrysler arsenal with the Chrysler executives; not the GI. Take the corporation executives and compare with the GI. Mr. Keller is entitled to every penny they pay him, so far as I am concerned. He made $412,000 last year, the president of Chrysler Corp. and, based on a 40-hour week, that is $206 per hour.

Senator CAPEHART. Is that before taxes?

Mr. REUTHER. That is his income—salary and bonus. When the worker gets paid, that is also before taxes; when we talk about our hourly rates, that is before taxes, too. He made $206 per hour.

Now, if you are going to talk about equity, let's get them all down. Let's put the GI down, let's put the Chrysler worker down who is building that tank, and let's put Mr. Keller down. The Chrysler worker gets $1.75 an hour, Mr. Keller gets $206, and I don't know what the GI gets.

Now, let's talk about those three things, not just the GI and tank workers—Mr. Keller takes part in that process, because it is the tanks we are making out of which he gets his salary. This is the guts of this whole problem.

You can't kid workers by talking about the GI's unless you are prepared to talk about Mr. Keller at the same time. When you talk about GI's, Mr. Keller and the tank worker, then you will be talking the kind of language they understand, and will go along with.

Senator CAPEHART. If Mr. Keller would work for $1 a year, would the Chrysler employees immediately take a cut in wages? That is your theory; that because Mr. Keller gets $400,000 a year that nothing can be worked out; no equity.

Mr. REUTHER. He is not the highest paid executive in our industry.

Senator CAPEHART. It seems to me your entire argument here is that you always get back to what I term a socialistic scheme. In other words, you are opposed to the private enterprise system making a profit. You are opposed to one man getting more money than somebody else does.

Mr. REUTHER. That is where you are wrong.

Senator CAPEHART. What is your salary?

Mr. REUTHER. I don't think, as a matter of logic, it follows if you say you are talking about equity between a GI and a tank worker—and I say let's talk about equity between a tank worker and the GI and an executive—it has anything to do with socialism.

Senator CAPEHART. What is your salary?

Mr. REUTHER. $10,000 a year.

Senator CAPEHART. Why do you get $10,000 a year when the man on the tank line gets only $1.75 an hour, or are you worth $10,000 a year when he is worth only $1.75 an hour?

Mr. REUTHER. No; that isn't it. It just so happens that in our industry we have the wages set for our leadership a little above what the top people in our industry make. In my trade, I could make—or during the war I could have made, with the overtime—pretty close to $8,000 or $9,000 a year. I am a skilled tool and die maker. I get a little more than what I would get if I worked at my trade, although I have always believed that the salaries of trade-union leaders, labor leaders, should never be much above what the men in the shop get paid. That is my philosophy. I am in this business not because of what I get paid, but because I believe in it, and I worked for nothing for a long time.

Senator CAPEHART. It seems to me all your arguments are based on a socialistic scheme to destroy the private-enterprise system.

Mr. REUTHER. Socialism is a matter of ownership. What has this to do with ownership? You tell me.

Representative GAMBLE. What has that to do with regulation W, too, when you get right down to it?

Mr. REUTHER. I think that is a very pertinent question. But the Senator raised the question of socialism, and it is one of those scare words that has no meaning in this situation.

I am not against free enterprise. I am for making free enterprise work for all the people, not just for a few people.

If I may, I would like to conclude my discussion of regulation W, Mr. Chairman.

In my prepared statement I indicated the impact of regulation W on the employment situation; I used Kaiser-Frazer as an example, and that is all in there.

I have documents here from various organizations throughout the country indicating that the impact of regulation W has cut the sales of new cars from 40 to 50 percent, in various parts of the country, and the sales of used cars as high as 65 percent. I won't bother you with the documents, but it can be documented to prove that that actually is taking place out in the field.

Now, as I said before, the little fellow is being priced out of the market. The fellow who buys a Cadillac has no trouble; he can get his Cadillac. It is the fellow who needs a car for transportation that is being priced out of the market.

If the Federal Reserve Board were really concerned with trying to reduce the amount of consumer credits, and the amount of money available that is being spent—if that is the pressure on the index that is creating inflation, then they should have dealt with the really basic problem, and at the end of my prepared statement, I have a chart showing the distribution of income. You will find there that the highest tenth of family groups make expenditures of $43,000,000,000 a year. The lowest tenth only 3.7 billion. The lower one-half of American families spend almost the same amount as the top tenth. Now, why penalize the fellow who is down there where they have an awful time making ends meet, when regulation W leaves the fellow on top completely in the clear.

Now, it is a strange thing that the Federal Reserve Board——

Representative BROWN. Do you desire to have this incorporated in the record?

Mr. REUTHER. That is in my prepared statement; yes.

The Federal Reserve Board move on the little fellow with its regulation W, and they price him out of the market, and that is supposed to be the method by which they minimize the amount of purchasing power, the amount of consumer credit, and therefore they will alleviate some of the pressure on the cost-of-living index.

Representative BROWN. I made the statement yesterday that if you made it 18 months instead of 15 months, I did not think that it would affect inflation at all. What do you think about that?

Mr. REUTHER. Of course it would not. The point is that if a fellow buys a car, and he pays down, say, $200, and he has got, let us say, $1,800 to pay—let us just use those figures. If he pays it off over a period of time, while he is making those payments, that is eating up his purchasing power. That is not inflationary, and the real measurement is how much more purchasing power does the absence of regulation W permit to come into being. It is 2 percent, and that 2 percent is not an important factor, and that is why I want to point out to you that while the Federal Reserve Board puts on consumer credits in the form of regulation W and regulation X on housing, they do not put on bank credits, and bank credits are the source of the real pressure with respect to causing higher prices.

Since Korea, consumer credits have been going up around 400 million dollars a month, but bank credits have been going up at the rate of 1½ billion dollars a month, four times as great. Now, in 1947, Mr. Eccles, who was then Chairman of the Federal Reserve Board, appeared before Congress and asked that the law be amended so that he could begin to deal with what he then saw was a very threatening situation, and that was the unlimited bank credit being passed out by the banks. I think the banks have around $65,000,000,000 worth of Government bonds that they accumulated during the war because they were the Government's fiscal agents. Now, with that $65,000,000,000 worth of bonds, they can just pass out unlimited bank credit, and they are passing that bank credit out at a rate four times greater than the increase in consumer credit, and yet Mr. McCabe does not raise a finger about that. That is a strange situation. Here is bank credit expanding four times as fast as consumer credit, and nobody says a word about that, and yet they act against the consumer credit which is expanding only one-fourth as fast.

The whole idea is wrong, and these fellows ought to be made to understand it is basically incorrect.

Senator CAPEHART. Would you be satisfied with 18 months? Do you think 18 months would help solve the problem?

Mr. REUTHER. I think it certainly would be a considerable improvement.

Senator CAPEHART. Do you think it ought to be more than 18 months?

Mr. REUTHER. Well, 18 months would certainly be better than 15 months.

Senator CAPEHART. There is no question but what they did eliminate the man on a limited income from buying an automobile. That is as obvious as my big nose.

Mr. REUTHER. I think 18 months is too short. I do not know why you cannot go back to 21 months. The point is you are dealing here with an essential commodity the people need. They are not luxuries.

Senator CAPEHART. That is why I was opposed and wanted to eliminate regulation W after World War II.

Mr. REUTHER. I think you ought to go back to a longer period. Suppose a fellow has an income of $60 a week. Now, he spends part of that, approximately 40 percent for food, and those items. He spends so much for clothing. Now, he takes a part of that out for his automobile, or refrigerator or whatever it is that is controlled by W. Now, while he is buying these things he is spending his money buying that back. That is not inflationary. Now, you price him out of the market for an automobile or a refrigerator, and he then is going to start spending that money for more food and clothing, and he is going to exert more pressure on those items, and that will create inflationary pressure there, so I would go back to the longer period. I don't know why you cannot go back to 21 months. I personally do not think that is a serious problem.

Senator CAPEHART. I think it is obvious that you hurt the little fellow when you make the terms short.

Mr. REUTHER. Let me finish by saying that another part of this problem which we are worrying about is these material orders, and we deal with that in our statement, and we hope that this material thing can be worked out. Now, for example, in the auto industry if a 35 percent aluminum cut across-the-board on a flat basis stands and is not modified there can be mass unemployment in our industry. Ford Motor Co. has given me figures as late as this week which they claim are as accurate as they can project them and the figures indicate in the Ford Motor Co. alone, if we had a mechanical application of the flat across-the-board 35-percent cut in use of aluminum for civilian production, it would mean 40,000 workers would be laid off just in the Ford plants themselves, and if you translate that into the whole auto industry on the same ratio, and also in the agricultural implement industry because they make engines comparable to automobile engines, it would mean in our industry we would be laying off around 320,000 auto workers, and 64,000 agricultural implement workers, or approximately 384,000 workers.

That would be, I think, a real catastrophe if that happened, because we need this civilian production.

Senator CAPEHART. It would be a catastrophe unless they can take up the slack in war production.

Mr. REUTHER. We have only 3-percent war production in the auto industry now. It would mean a waste of millions of man-hours. It would mean we would not be making the automobiles we will need in the long pull in order to have defense transportation for workers, and so forth. What we have got to do is get away from this flat across-the-board approach. We have got to begin to allocate materials in short supply based upon whether the end product is essential. If it is nonessential, they have got to not give it the same treatment as the essential product.

Senator CAPEHART. What you are saying is they must allocate on the basis of the end product rather than the horizontal allocation of *x* amount of aluminum, or *x* amount of copper, or any other.

Mr. REUTHER. Look at the aluminum on pistons. With the exception of Chevrolet and Pontiac, all the cars use aluminum pistons. Now, if they cut aluminum 35 percent on pistons, then the production of pistons drops 35 percent, and that item regulates the level of the production. You do not do anything about it. You cannot leave a couple of pistons out of an engine. Now, if you save, under the mechanical application of their flat across-the-board order, if you save all the aluminum you are using on five items by substituting other materials, you cannot then use that extra aluminum for pistons. It is just completely unrealistic.

Now I might say yesterday I talked to Mr. Sawyer and Mr. Harrison about this thing, and I went over it with them in great detail. After we finished the discussion, Mr. Harrison said, "I realize that is a problem. I want to give you assurance," and he made the very definite commitment that he would take steps to meet this piston problem, which is the most serious thing, or any other tight item like that, to avoid the severe cut in automobile production that would follow if you had a mechanical application of this 35 percent item right across the board. He has made that commitment. I think that is the key to the whole question.

Senator CAPEHART. I think they realize that.

Mr. REUTHER. I hope we have gotten them to realize that, because it can be disastrous if we do not move. He said he would. I am going back to Detroit, and he told me I could tell the pepole in the automobile industry that he would take steps to meet this problem on pistons or any other single item that would mean a drastic cut in production.

Representative TALLE. Mr. Chairman, recalling your earlier statement, Mr. Reuther, about obsolete airplanes, of which there are very many, why is nothing being done about recovering the aluminum in them?

Mr. REUTHER. That is what I asked yesterday, and I am going to find out why something is not being done. That is a little project I am going to work on while I am down here. For example, the Ford Motor Co. said to me in my meetings this week, they said if we could get a greater supply of secondary aluminum, that is aluminum that has been used and remelted, we could save from 40 to 60 percent of the primary aluminum, that is the item in short supply. I said, "Well, what about these airplanes?" They said that would more than take care of our problem, but there they are sitting out in the desert. I want to know why we are not scrapping them, why do we not get some of the unemployed in America out there, set up some temporary housing, an Army commissary to feed them, and let us tear these things down. There is all kinds of scarce material in those planes.

They have no military value. They are just old boxcars. We could not send our boys out to fight with them. The stuff that can be used is something else. I am talking about stuff that is completely obsolete. There are millions of pounds of aluminum there that we could recover and get into our production process. That is the problem. I say to the fellow, "What about this?" He says, "That is not my department, that is somebody else's department." I don't know whose department it is in, but I am going to find out before I leave town.

Representative TALLE. If you get the answer early enough, will you supply it for this record?

Mr. REUTHER. I should be very happy to. I can make no promise. It may be as hard to find as a needle in a haystack, but I am going to work on it.

Representative BROWN. We have a roll call in the House, Mr. Reuther.

Mr. REUTHER. We believe, gentlemen, that regulation W is not the way this problem ought to be handled, and we believe sincerely it ought to be set aside so we can really get on with doing this job on a proper coordinated basis rather than this stab-in-the-dark method which regulation W typifies in our opinion.

Representative BROWN. Thank you, very much.

(Mr. Reuther's prepared statement follows:)

STATEMENT OF WALTER P. REUTHER, PRESIDENT, UAW-CIO

At this juncture in world affairs with our Nation and all free peoples in a situation of unparalleled danger, we urge the speedy adoption of planned, orderly, and effective mobilization of the Nation's productive power.

UAW-CIO and its 1,000,000 members have been, and are, prepared to make their full contribution in an all-out mobilization of the Nation's resources. We believe that such mobilization, to be successful, must be realistically planned and coordinated under a central responsible authority. For nearly 6 months, uncoordinated piecemeal measures have been our only answer on the domestic front to aggression in Korea and the challenge to freedom throughout the world. They will not do the job. Such measures make the job harder, not easier, to do.

You have called these hearings to consider regulation W—Automotive. I shall talk about regulation W—Automotive. But I know, and you know, that this type of regulation is not the answer to the grave and urgent questions which we must face up to at this time. At best, regulation W will not do the job that must be done by price control, for which it was issued as a quick and easy substitute. At worst, it will do far more harm than good, disrupting employment, dislocating manpower, and wasting irreplaceable and therefore priceless manhours of vitally needed production. The brainchild of monetary theorists in the Federal Reserve Board, it found favor with those who hoped that stabilization of prices and mobilization of production could be operated by remote control through the manipulation of a few fiscal push buttons.

If there was ever any hope the task would be simple, there certainly can be none today. The job we have on our hands requires large-scale planning and practical, vigorous, realistic execution. It requires that all parts of the defense and civilian program be tied together. If regulation W has any part in this over-all plan, it is a minor part and I shall discuss it in connection with the larger job that is to be done.

With regard to the elements in a planned and coordinated mobilization program, now that we know for certain the nature and the magnitude of the job—and this is true whatever the diplomatic and military developments of the next few days and weeks—we should be able to reach agreement on, first, the imperative necessity for an all-out democratic mobilization of our material and human resources for maximum production of military and essential civilian goods and services, and, second, a planned mobilization program that, by taking account in advance of all essential military and civilian needs and resources, will get that maximum production without waste and without delay.

It seems to me that the worksheet for such a planned mobilization program should have certain essential elements. I list them to show the contrast with the uncoordinated piecemeal steps that have been taken to date under the Defense Production Act.

I. PRODUCTION

1. *Needs.*—List actual or provisional targets for materials, manpower, plant, and transportation facilities to meet military requirements; schedule dates of delivery.

2. *Resources.*—List total material supply and production potential for military, essential civilian, and export needs.

3. *Deficits.*—List the resulting scarcities under present conditions of supply and production.

4. *Civilian essentials.*—List ways to relieve these scarcities by reducing or eliminating obviously nonessential civilian uses.

5. *Expand resources.*—Determine largest possible increases in materials supply both here and from abroad. Nation-wide drives to recover scrap aluminum, copper, steel, and other scarce materials.

6. *Direct imports.*—Establish Government monopoly over all purchases of scarce materials from foreign sources in order to obtain better prices on purchases, to eliminate tariff cost, to give Government stockpiles first claim, and to assure materials for small or nonintegrated manufacturers.

7. *Expand production.*—Fix, schedule, and start work on the necessary increases in production capacities for scarce materials and finished products.

II. CONVERSION

This mobilization may last a generation. It requires full utilization of every production facility and every available man-hour of labor. Any essential civilian production that is lost now by shutdowns prior to change-over to defense production is a costly waste that will have to be made up later when greater arms production could otherwise be turned out.

We cannot afford a single wasted factory-day or man-day brought about by premature or uncoordinated curtailment of materials. Up to the time defense orders and production can be spliced in, we should continue to roll out essential civilian goods for the long years ahead when military needs will be demanding greater and greater proportions of our total output. It is imperative that we keep our productive machine going full speed, changing over to defense production with the least possible loss of plant-hours or man-hours.

8. *Priorities and allocations.*—Instead of the present shotgun methods of uniform across-the-board restrictions on use of scarce materials—

(*a*) Use a controlled materials plan to allocate scarce materials to defense contracts as required, with balance to essential civilian uses and to stockpile.

(*b*) Base civilian allocation upon—

(1) Essentiality of the end product.

(2) Possibility of substituting other materials.

(3) Continued use of plant and manpower, considering present and scheduled defense needs.

(4) Building stockpiles of essential items to ease future shortages.

We enter this emergency period with cars on the road averaging 8½ years old; in 1941 the average age was 5½ years. Today 42 percent of the cars are 10 years old or older; in 1941 only 17 percent were that old. Clearly there is need to build up the inventory of new cars and trucks to provide for essential transportation needs after conversion of much of the auto industry to defense production.

(*c*) Regulate strictly all inventories of scarce materials.

9. *Procurement.*—Amend the law to authorize and direct use of negotiated contracts, so that placement of defense contracts can be geared to available facilities and manpower as well as to cost. This is necessary to minimize dislocation of labor force and undue concentration of defense work in a few major corporations.

10. *Manpower.*—Trained manpower now at work should continue to produce essential civilian goods until defense contracts are either spliced in or replace such production. Public employment offices should be made part of a national system at once, to make the best use of all available unemployed manpower.

Congress should provide for transfer of unemployment benefit rights so that workers asked to move to other States will not lose these earned rights.

Defense Manpower Director Robert C. Goodwin is reported to have advised public employment offices to differentiate, to discriminate, "between those unemployed who will return to their former employers when production change-overs are completed, and those who can be regarded as available labor supply for expanding defense production." He expects full employment by early summer, 1951.

In plain words, Mr. Goodwin suggests that some workers shall get the services of tax-supported public employment services and others shall not get those services. He seems to assume that American workers can be pushed around at the convenience of public officials, that they can be put in the deep-freeze lockers of unemployment insurance and thawed out and put to work in their old jobs whenever defense contracts are awarded their former employers. Mr. Goodwin's recommendations to public employment offices simply will not work.

III. STOP INFLATION

Instead of relying on credit restrictions that hit exclusively workers and other low-income families, provide for—

11. *Control of big credit.*—Authorize and direct the Federal Reserve Board to impose special reserve requirements on banks sufficient to halt the expansion of business loans for speculative bidding up of prices and building up of inventories.

12. *Control of prices on commodity exchanges.*—Continued speculation and gambling in commodities expressly permitted by Congress in the amendment eliminating regulation of exchanges from the Defense Production Act, has contributed to the 9-percent rise in wholesale commodity prices (since Korea) which, increasing as it goes, will hit consumers with stunning force next spring.

13. *Genuine price controls.*—The so-called price control provisions of the present Defense Production Act will not control prices. They provide not for stabilization of prices but for chronic, continuing inflation. When Economic Stabilization Administrator Valentine told you on Monday that escalator clauses in wage contracts might cause inflation, he then and there admitted that he does not expect to stabilize the cost of living.

Announcement by General Motors of a totally unjustified and unnecessary price increase on the heels of a similar increase in the price of steel reemphasizes and underscores the need for decisive action by the Government to stop runaway inflation and protect the living standards of the American people.

The UAW-CIO has been calling for such action ever since the Korean situation accelerated the upward movement of the cost of living. We pointed out 2 months ago that any contemplated increases in automobile prices or the prices of materials and parts to automobile companies would be thoroughly unjustified. That is still true.

The General Motors increases announced are the second step in the inflationary spiral touched off by the management of the steel industry last week when it announced a price increase with the false claim that an increase was necessary to pay the wage increases won by the steel workers.

However, even though the steel industry committed the original wrong, two wrongs don't make a right. General Motors could have absorbed the steel price increase, all other materials price increases and its increased labor costs, and still have made a tremendous profit.

Company and Government figures show that 17 major steel companies were making an average of more than 18 percent profit on investment after taxes in 1950. Their second-quarter 1950 profits established new records. The steel industry could have paid the wage increases they granted last week without increasing the price of steel and without increasing the costs of automobile producers—the largest consumers of steel.

On the basis of its third-quarter figures, General Motors could have absorbed all its increased material and labor costs since the beginning of 1950 and still would have made an annual return of more than 30 percent on investment after taxes.

In the absence of any kind of price controls, the steel industry is taking advantage of the international crisis and our national peril to pass on to the automobile and other industries cost increases which the steel industry is perfectly capable of absorbing.

The steel industry must accept the major responsibility for pulling the trigger that sets off this chain reaction of inflation. However, this does not excuse General Motors, the wealthiest and most profitable corporation in the world, for passing on this increased cost to automobile consumers where it will be reflected in reduced purchasing power. In both cases, management is acting out of a completely selfish interest to protect profits which have already risen to the proportions of a major national scandal. With these corporations, it is profits first, and the welfare and security of American families second.

Approximately 750,000 UAW-CIO members and their families, covered by cost-of-living escalator clauses, will be protected against the increased living costs that will flow from these price rises. But we in the UAW-CIO are concerned with the welfare of the whole Nation and the living standards of the millions who have no such protection.

Since these basic private industries have refused to assume their social responsibilities to the Nation, the American people have no choice but to demand that the Government take immediate and effective action to protect our living standards against the onslaughts of profiteers.

14. *Rent control and essential housing.*—Establish effective Nation-wide rent control for all areas of housing shortages. Provide now for allocation and priority of materials and construction of essential defense housing to relieve shortages already described to you by NSRB Chairman Symington and Housing Expediter Tighe Woods.

15. *Taxation.*—We must go as far as possible to pay as we go, but the burden must be imposed equitably. Income taxes are the most equitable, but the loopholes in the present tax law which favor wealthy taxpayers must be eliminated, and exemptions must be raised so that no family shall be taxed below a decent level of subsistence. While low-income families are now being taxed at the wartime rate, upper-income families and corporations are paying at lower rates than they paid in the war. The so-called excess profits tax passed by the House is more lenient on corporation profits than the wartime tax law, although corporation profits are already 60 percent above war profits and are still going up.

Regulation W—automobiles: The immediate effect of Regulation W has been to curtail sales of automobiles. This has been offset somewhat by the scare buying stimulated by the turn of events in Korea. But the fact is that dealers' stocks are increasing and production cut-backs are bound to follow. Edgar Kaiser of Kaiser-Frazer Corp. recently told a press conference what it is doing to employment in his company. On October 14 they were employing 17,000 people. Today their payroll has been cut to 12,000; it will be down to 10,000 next week, and is expected soon after the first of the year to reach 8,500. This company estimates that, including its vendors and dealers, 60,000 people were employed in October, and that this figure, too, will be cut in half when the regulations take full effect—a lay-off of 30,000 people.

It appears to be true that some dealers have offset the initial impact of regulation W on the demand for cars by slashing their margins and selling new cars at bargain prices. This is only a temporary expedient. From various parts of the country dealers report a 40 to 50 percent drop in new car sales and a 60 percent drop in sales of used cars.

Dealers report also that regulation W has hit hardest at buyers with small incomes and no cash reserves. This was to be expected. When the Federal Reserve Board instituted these credit restrictions as a substitute for price controls, it knew that their effect would be to force low-income buyers out of the market while allowing well-heeled buyers with ample cash resources to buy as much as they choose.

Price control gives every class of buyer the same protection. Credit controls, like sales taxes, deliberately impose the burden upon the low-income people who can least afford to carry it. Yet the automobile is not a luxury. It is a necessary means of earning a livelihood for millions of workers in every industry.

I call your attention to the attached table, showing how consumer expenditures are concentrated in the upper tenth of the population on whom regulation W has little, if any, effect. That one-tenth makes more than one-fourth of the total expenditures. The entire bottom half of the population will be severely penalized by this regulation, although as a whole it spends only slightly more than the upper one-tenth. Regulation W is a rich man's racket. It tells the workers and low-income families to pull in their belts in the worthy cause of protecting the country from inflation, but it leaves the well-to-do and the wealthy free to keep feeding the fires of inflation by spending as usual.

The Federal Reserve Board knows all these facts. The figures I present to you come from their statisticians. But equality of sacrifice is not the principle it operates on. If it were concerned with equity, it might propose, for example, to tax the upper tenth of the population so that their expenditures would be brought down merely to the level of the second tenth. They would still be better off than 80 percent of the people but, as the table will show you, this one measure would cut consumer expenditures by 18.5 billion dollars. Yet the Federal Reserve Board would try to have you believe that the only sound way to relieve the inflationary pressure of consumer spending is—work up from the bottom and don't go too near the top.

While the Federal Reserve Board was straining at the gnat of consumer credit it was simultaneously swallowing the camel of bank credit. Since Korea, consumer credit has been increasing at a rate of about 400 million dollars a month; bank loans have increased more than 1.5 billion dollars a month. But no realistic steps have been taken to check this inflationary extension of credit for the purchase of scarce materials and the financing of swollen business inventories. On November 19 Federal Reserve Governor McCabe asked the banks to restrain their eager borrowers. On the next day the Wall Street Journal said, in effect, the banks wouldn't, indeed couldn't, comply with his request. For low-income consumers, a regulation that prohibits them from buying durable goods or new houses; for banks, a polite plea which nobody expects them to listen to.

When looked at in the light of the total mobilization job we have to do, as I have tried to outline it above, regulation W makes practically no sense. It will throw thousands of people out of work for whom no defense jobs are yet available. It will disrupt the labor force of many plants, forcing them later to recruit labor when defense contracts come along. Worst of all, no one, least of all the Federal Reserve Board, knows how, when or where its blows will fall. Against the urgent necessity of keeping our plants and manpower as fully employed as possible, and the need of channeling materials and manpower to defense products and to civilian products that are essential to a strong and vigorous economy, this meat-ax regulation strikes without plan or purpose. It is a colossal blunder, and the sooner it is cut down to size so that it may exercise its proper but very limited function within the framework of the over-all job, the sooner we will get on with the big job we all have in hand.

Regulation X is performing the same kind of disruption and disservice in the housing field. Note, for example, what happened to construction in the first month after this regulation went into effect. Private residential construction, of which there is a severe shortage, especially in the lower-priced brackets, went down 10 percent, compared with October. Construction of stores, restaurants, and garages, on the other hand, rose 10 percent. Other commercial construction rose 5 percent. Recreational structures declined only 4 percent, much less than home construction went down, while construction of military and naval facilities fell 6 percent.

This senseless failure to attend to first things first is the result that is to be expected when we rely on push-button controls instead of getting down to the bnsiness of allocating materials and labor to the things that are needed most to carry us through the long emergency period ahead of us.

As to metal cut-backs, the same haphazard, uncoordinated disruption of production, without regard to availability of defense contracts, without regard to essentiality of civilian products, without regard to stability of the labor forces, will result from the limitation orders now being issued on aluminum, nickel, zinc, cobalt, copper, and other metals. As is the case with the Federal Reserve Board and its credit regulations, the National Production Authority itself does not know what effect its across-the-board restrictions of metal use will have on production or employment.

We can tell you what a 35-percent cut in aluminum will mean to the automobile industry. Ford Motor Co. has given us the figures for its own operations. It will mean that 36,000 hourly workers will be laid off. This is 35 percent of the 109,000 workers employed by Ford on October 31. This will be followed by a reduction in clerical and salary workers. Ford Motor Co. estimates that a minimum of 40,000 people in all will be laid off when aluminum is cut 35 percent.

General Motors truck and coach operations will be hit even more drastically. It has scheduled production of 400 motor coaches in January. On the basis of the announced cut of 35 percent in aluminum beginning January 1, it stated that only 70 coaches would be built in that month—a reduction of more than 80 percent. General Motors says this aluminum cut will reduce its production schedule of GMC trucks by 45 percent.

On the basis of such announcements by the auto companies, we estimate that the 35 percent aluminum cut will force 321,000 factory and office workers out of employment in the auto industry, and 63,000 in the agricultural implement industry, a total of 384,000 forced into unemployment of indefinite duration.

Aluminum pistons are the key to this problem. Eighteen makes of passenger cars have engines designed for aluminum pistons. Only Chevrolet and Pontiac are exceptions, using cast iron and chrome-nickel pistons, respectively. Pistons are the key to production in power-driven farm machinery as well. A power plant using aluminum pistons must be redesigned before a heavier piston can be used. Eight to fourteen months would be required to retool automobile engine factories to make this change, imposing an additional burden on the machine tool industry which already will be under terrific pressure to tool factories for defense products.

Here you have an example of the havoc wreaked by the meat-ax approach to a conversion job that should be performed on the basis of facts, blueprints, and precision tools. Cars, trucks, busses, and agricultural implements are vitally necessary to the operation of our economy. Reduction in their output should be geared as closely as possible into the change-over to defense production. Meanwhile, the national inventory of these essential civilian products should be built as large as possible. Furthermore, the work force in auto and agricultural implement plants is as valuable as an asset to the mobilization job as are the plants themselves. Every effort must be made to prevent the dispersion of this valuable manpower, forcing employers later to recruit new workers and forcing workers to move from one area to another trying to find places to work and places for their families to live.

A realistic approach to this aluminum shortage as it affects the auto industry would include these steps:

1. Expand aluminum production as quickly and as far as possible. We must raise our sights on what the Nation needs and will continue to need in this and other basic materials. We should cooperate closely with Canada in assuring adequate aluminum supplies for both nations and our allies.

The St. Lawrence seaway and power project should be approved and pushed to rapid completion to ease the power shortage that holds back expansion of aluminum production.

At the same time we should halt the senseless dismantling of German aluminum plants, like the Toeging works in Bavaria where a plant employing 1,000 workers producing aluminum is about to be totally wrecked.

2. Launch immediately a comprehensive, realistic scrap collection campaign to increase the supply of secondary aluminum that can be substituted for a large part of the present consumption of virgin aluminum, permitting the virgin aluminum to be stockpiled.

The thousands of planes left on our hands from World War II and by obsolescence should provide a tremendous source of scrap aluminum.

Auto manufacturers say that from 40 to 60 percent of the virgin aluminum they are now using could be replaced by the secondary metal if it were made available.

3. Allocate the total supply of virgin and secondary aluminum on the basis of national needs. After defense needs are met, allocation to civilian use should be on the basis of essentiality. Products which can be made with less scarce materials, or products which are wholly nonessential, should not use aluminum.

4. Adopt a practicable plan for building up the necessary stockpile. If the cut in aluminum use by auto manufacturers were to start at 15 percent for January and February, increase to 20 percent in March and April, to 25 percent in May and June, to 30 percent in July, and to 35 percent in August, I am told that the industry might adjust itself to this scale of curtailment without serious effect on its output. Cuts greater than 35 percent could then be made in later months so that in 15 months we will have built up the stockpile which the present unrelated and uncoordinated program is designed to provide. Then we would not have lost the production of cars and trucks we are going to need before this emergency is over.

5. Maintain all necessary supplies of aluminum to the replacement parts industry. Application of the flat cut-back percentage to the production of replacement parts for motor vehicles is totally senseless. Production of new cars and trucks will be reduced for a long period of time. Average age of cars and trucks now on the road is high. Obviously we shall have to be sure of more, not fewer, replacement parts to keep cars and trucks running. We learned this

in the last war, when replacement parts finally were given high priority. Do we have to start fresh this time and pay the price of making the same mistake over again?

I suggest that the committee explore with manufacturers this and other ways in which the national need can be met by methods which do not at the same time create other difficulties that severely interfere with the whole mobilization effort.

UAW-CIO criticizes the controls that have been imposed to date not because we wish to hurt or hinder the mobilization program, but precisely because we want to see that program move forward with more speed, more direction and larger and more certain results.

For 6 months much time and effort has been spent in trying to find ways of avoiding controls, over-all planning and unified direction. The facts of the world have now forcefully served notice on us that it is time to get down to business.

Our union is prepared to assist in every way we can in shaping the kind of plans and programs that are necessary to gear out economy to the long, hard job ahead. And when the plans and programs are made and put to work, we will roll out the production as was done in World War II.

Distribution of personal income and expenditures, 1948

Spending units ranked according to income	Range of money income	Personal income after taxes [1]	Net savings	Expenditures
		Billion dollars		
Highest tenth	Over $6,000	51.6	8.5	43.1
Second	$4,500-$6,000	26.7	2.1	24.6
Third	$3,750-$4,500	21.4	1.6	19.8
Fourth	$3,200-$3,750	17.8	.7	17.1
Fifth	$2,840-$3,200	16.0	.6	15.4
Sixth	$2,400-$2,840	14.2	.2	14.0
Seventh	$2,000-$2,400	12.5	−.1	12.6
Eighth	$1,500-$2,000	8.9	−.3	9.2
Ninth	$860-$1,500	7.1	−.5	7.6
Lowest tenth	Under $860	1.8	−1.9	3.7
Total		178.0	10.9	167.1

[1] Excludes income in kind and change in value of farm inventories.

Based on income and savings estimates of Department of Commerce, and on distribution of income and savings estimates in Federal Reserve Board Survey of Consumer Finances.

Representative BROWN. Mr. Mules is next. Would you like to file your statement, or come back in the morning?

Mr. MULES. We have a prepared statement which we will be glad to file, but I would like to just emphasize one or two points, if you might give me 2 or 3 minutes.

Representative BROWN. We can give you 2 or 3 minutes, or all the time you want in the morning.

STATEMENT OF W. RUSSELL MULES, ATTORNEY FOR COMMERCIAL CREDIT CO., BALTIMORE, MD.

Mr. MULES. My name is W. Russell Mules, of Baltimore. I represent Commercial Credit Co. I would just like to amplify and point out what we have said in our statement. We think that this committee should not consider automobiles alone in considering whether or not the terms for the items which are sold on time—you gentlemen should also consider the refrigerators, the washing machines, the matter only of degree as to need.

Representative BROWN. We understand that thoroughly, yes.

Mr. MULES. We hope that you will consider that. The second point we would like to stress is that installment credit plays such a small part in the economy that regulation W cannot do much toward controlling inflation by controlling only installment credit.

For instance, as to disposable income, in relation to installment credit, there is only about a half of 1 percent increase over 1940.

Representative BROWN. That is in your statement.

Mr. MULES. That is in the statement.

We do think and we strongly recommend that the terms for the purchase of all articles, automobiles, and other listed articles, be extended beyond 15 months. Thank you, sir.

Representative BROWN. Your statement will be filed.

(Mr. Mules' prepared statement follows:)

STATEMENT OF W. RUSSELL MULES, ATTORNEY FOR COMMERCIAL CREDIT CO., BALTIMORE, MD.

Commercial Credit Co. began business June 12, 1912, and, with its subsidiaries, is engaged in financing commercial open account and installment receivables, in insurance more or less directly connected therewith, and in manufacturing. The company has been continuously active since 1916—34 years—in acquiring installment contracts arising out of the sale of automobiles, appliances, and articles usually sold on the installment plan throughout the United States and Canada. These operations are being conducted through nearly 300 local offices and almost 5,000 employees. The consolidated resources of the company are about $800,000,000, with invested capital approximating $115,000,000, owned by some 28,000 stockholders. During the 10 months ended October 30, 1950, the company acquired nearly $2,000,000,000 of various receivables, of which $930,000,000 covered the financing of automobiles and appliances for distributors and dealers awaiting retail sale—current outstandings approximating $93,000,000; and $494,000,000 covering the retail installment sales of these articles, with current outstandings approximating $454,000,000.

The officers and employees of the company and its finance subsidiaries are necessarily thoroughly experienced with all problems incident to the sale and financing of automobiles and other articles usually sold on the installment plan, including operations, restrictions, and their effect under regulation W, which now seeks to control only the installment portion of consumer credit. The company has striven for 34 years not only to steer its own activities, but also assist in guiding the installment sales financing industry generally along a course of safe and sound credit terms. The company has always endeavored to offer to the public an efficient installment plan with reasonable financing rates for purchasing automobiles and other articles out of current income, with adequate down payments and reasonable terms of repayment. The profitable operation of financing current receivables requires the ability to borrow large sums of money in proportion to invested capital, for short term and long term, from banks, insurance companies, corporations, and other investors. This means that the receivables acquired must be upon basically sound and stable credit terms, with adequate minimum down payments and proper maximum maturities.

Commercial Credit Co. believes that your committee should review existing credit restriction under regulation W as to maximum maturities of 15 monthly payments covering the sale, not only of automobiles, but also of other listed articles included thereunder, as otherwise discrimination may well be claimed. As there have been so many statements and misstatements as to the past and present attitude of Commercial Credit Co. toward regulation W, the company desires hereby to restate and clarify its position.

Regulation W was first put into effect August 21, 1941, and discontinued November 1, 1947; then reinstated September 20, 1948, and discontinued June 30, 1949; and again reinstated on September 18, 1950. Current regulation W affects only the total installment credit of $13,329,000,000 outstanding September 30, 1950, or around 69 percent, leaving $5,964,000,000, or around 31 percent, of the total consumer credit outstanding in single-payment loans, charge accounts, and service credit entirely unregulated, although each of these was regulated under the regulation W which was discontinued November 1, 1947. Why?

Commercial Credit Co. has never felt and does not now feel that the small percentage of the total sales of merchandise on the installment plan in proportion to the total retail sales of merchandise, or to the annual total disposable personal income of our country, could have or has had any material effect in bringing on or in prolonging any general business depression, or that the total installment credit outstanding has been or is now large enough to cause serious concern, or to add much to any trend toward inflation. Recurring wage increases with resulting higher prices, both uncontrolled, and deficit spending are the primary causes of inflation.

According to Federal Reserve statistics:

Prior to World War II the largest annual total disposable personal income was $92,000,000,000 for 1941, and the largest total installment credit outstanding was, on December 31, 1941, $5,887,000,000, or only 6.39 percent of such income. The total disposable personal income for the second quarter ended June 30, 1950, was at the annual rate of $195,500,000,000 (latest released figures) with total installment credit outstanding September 30, 1950, of $13,329,000,000, or only 6.81 percent of such income—a very slight increase.

The monthly average total retail sales during 1941 were $4,624,000,000 (Department of Commerce)—annual rate approximating $55,500,000,000—with total installment credit outstanding December 31, 1941, of $5,887,000,000, or only 127.31 percent of the monthly average total retail sales and only 10.60 percent of the total retail sales during 1941. The monthly average total retail sales for the 9 months ended September 30, 1950, were $12,496,000,000 (Department of Commerce preliminary figures)—the estimated annual rate approximating $150,000,000,000—with total installment credit outstanding September 30, 1950, of $13,329,000,000, or only 106.66 percent of the monthly average total sales and only 8.88 percent of the total estimated retail sales for 1950—substantially less in each case than prevailed in 1941.

From the above, it is obvious that the annual total disposable personal income estimated for 1950 will be 112.50 percent greater than for 1941; and that the total estimated retail sales for 1950 are 170.27 percent greater than the total retail sales during 1941. On the other hand, the total installment credit outstanding on September 30, 1950, was only 126.41 percent greater than on December 31, 1941.

The total installment credit outstanding September 30, 1950, would have to increase by $2,583,000,000, or 19.37 percent, that is, from $13,329,000,000 to $15,912,000,000, to be in the same proportion to the total retail sales estimated for 1950 as compared with 1941.

The above statistics justify our position that installment credit has but little, if any, inflationary effect on our national economy.

Commercial Credit Co. would much rather permanently adjust its operations to regulation W with reasonable restrictions to cover all consumer credit, than to have its business and its stockholders upset periodically by having regulation W in effect in some form and discontinued, then reinstated and discontinued, and again for the third time reinstated to cover only installment credit, with no restriction on single-payment loans, charge accounts, and service credit. The company does not believe that sufficient time was permitted to elapse to gage the effect of the restrictions of September 18, 1950, before establishing the restrictions of October 16, 1950—less than 1 month. The company is convinced that 15 months' maximum maturity on all installment sales of merchandise discriminates unfairly against those desiring to buy and pay for out of their current income, automobiles and listed appliances. Further, that the 15 months' maximum maturity is causing new automobiles and listed appliances to back up unnecessarily with distributors and dealers and curtail their production by manufacturers, and thereby will bring about a sizable amount of unemployment prior to the time such manufacturers can begin the production of articles connected with the rearmament program of our country.

Commercial Credit Co. believes that in due time the production of new automobiles and new listed appliances will be substantially curtailed by controlled production and the inability of the manufacturers to obtain sufficient materials, due to the necessities of our rearmament program. This, in turn, will in a normal way reduce the total of installment credit outstanding. The current volume of time-payment sales of automobiles and other articles usually sold on the installment plan must necessarily move up or down in a reasonable proportion to their current production. The company does not believe that the present economic situation and outlook justify the restriction to a maximum maturity of

15 months on all sales of automobiles and restricted appliances on the installment plan.

Commercial Credit Co. believes that the present regulation W, which restricts only installment credit instead of all consumer credit, discriminates unjustly between different classes of consumer credit buyers, and with the maximum maturity of 15 months on automobiles and restricted appliances, discriminates unfairly between time-payment buyers and cash buyers. Workingmen, salaried men, and professional men who really need an automobile to help them to make a living for their families, as well as those with fixed incomes, find themselves unable to buy an automobile or a needed listed appliance and adjust their monthly payments thereon to an amount which they can conveniently pay out of their current income.

Restriction of the production and sale of articles usually sold on the installment plan, when in the public interest, should begin with the manufacturer by controlled production and the allocation of materials, and not with the retailer or with the time-payment financing of such articles.

After making the down payment of one-third of the delivered time price of any of the lower-priced new automobiles, the balance, when payable in 15 monthly payments, will average from $85 to $95 per month, with much larger monthly payments on higher-priced new automobiles. The average workingman, salaried man, professional man, and many with fixed incomes, simply cannot make such large monthly payments out of their current monthly income. They must either spend their savings, cash their E bonds, if they have any, or do without—possibly at great inconvenience, while the cash buyer and those with charge accounts or the ability to make single-payment loans are under no restrictions.

Commerical Credit Co. generally has been favorable to reasonable restrictions on the extension of credit, but has to admit frequent disagreement with their administration under regulation W. We do not now agree that even under existing economic conditions the maximum maturity on automobiles and appliances listed thereunder should be restricted to 15 months. Regulation W, when practically administered, establishes a helpful trade custom as to minimum down payments and maximum maturities and thereby stabilizes the sale of merchandise on the installment plan, prevents undue expansion of outstandings, and keeps the installment credit structure fundamentally sound, which should be the primary reasons for the regulation. It also produces an equitable and standard basis for competition among manufacturers, distributors, dealers, financing institutions, and banks, all of which redound to the over-all benefit and credit of the entire industry, the public, and our general economy. It prevents demoralization as to down payments and maturities, which was occurring just prior to World War II and also, to a less extent, just before the Korean War broke out.

Installment sales financing is a very necessary link in the high level of production and retail distribution of merchandise throughout our country. The company has always cooperated, as far as possible, with governmental agencies to keep its activities and operations within sound, general business and economic conditions for the best interests of all concerned.

In view of the above, Commercial Credit Co. would like to see regulation W amended promptly to extend the maximum maturity on automobiles and other listed appliances beyond 15 months, and, also, to include again single-payment loans, charge accounts, and credit service—all consumer credit—within its terms.

Representative Brown. The committee will now recess to meet tomorrow at 10:30 a. m.

(Whereupon, at 12:15 p. m., the hearing was recessed until 10:30 a. m., of the following day.)

DEFENSE PRODUCTION ACT
REGULATION W—AUTOMOTIVE

FRIDAY, DECEMBER 8, 1950

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D. C.

The committee met at 10:30 a. am., pursuant to recess, in the Interstate and Foreign Commerce committee room, United States Capitol, Senator Burnet R. Maybank (chairman) presiding.

Present: Senators Maybank, Robertson, Tobey, and Capehart; Representatives Brown, Patman, Gamble, and Talle.

The CHAIRMAN. The committee will come to order.

Mr. Hayward, will you come up now, sir? We are only too glad, Mr. Hayward, to put anything in the record you want. As I stated yesterday, it is rather odd to have 1 State witness and not have all the 48, and the National Association of Used Car Dealers is supposed to represent all the 48.

Senator Wherry telephoned me, and told me you had taken the trouble to come here from Nebraska, so we will hear you for a few minutes. We will be glad to put anything you wish to have in the record. Please understand the situation we have been in. If we had all 48 States, that would require 2 weeks more of hearings.

Mr. HAYWARD. I understand that fully, and with your permission, I will brief my remarks very greatly.

STATEMENT OF RAY HAYWARD, PRESIDENT, NEBRASKA USED CAR DEALERS ASSOCIATION

Mr. HAYWARD. My name is Ray Hayward of Omaha, Nebr. I have been engaged in the automobile business in Omaha for the past 34 years and am owner and operator of Ray Hayward Motors located at 2502 Farnam Street, Omaha, Nebr., and am engaged exclusively in buying, selling, and servicing used cars. I am president of the Nebraska Used Car Dealers Association and have been since its formation in 1946.

The purpose of my appearance before this committee is to protest against amendment No. 1, regulation W, limiting the pay-as-you-go period in the purchase of used automobiles to 15 months, to present facts to this committee which will demonstrate that the amendment was unnecessary and unwise and to urge that corrective action be taken promptly to avert further unnecesary hardship to the used car industry and to the public.

It is our firm belief that, first, the amendment was and is unnecessary either as an inflationary control measure or as a national defense measure. That the amendment caused extreme stagnation in the used car industry and, unless modified or repealed, will bankrupt a large segment of that industry and adversely affect the entire national economy. That the amendment is unjust and discriminatory, and that the amendment imposes a severe and unnecessary handicap on the efforts of the modest-income family to solve their transportation problem.

The justification advanced for amendment No. 1 of regulation W is that it was necessary for the control of a dangerous inflationary trend in the used car market. The facts, however, do not support this contention. Not only was there no inflationary trend in the used car market when the amendment was put into effect, but commencing with the second week in August of this year and continuing to the present time there has been a steady decline in used car prices.

We are fully aware that the Korean situation which broke late in June of this year caused considerable scare buying in our business as well as in many other lines. It is a fact, however, that by the middle of August used car prices started down and continued downward through the months of August and September and have continued downward to the present time.

The announcement of regulation W on September 8, to be effective September 18, caused a flush in buying, but at little or no increase in prices. Many purchasers wished simply to take advantage of a smaller down payment and a longer time to pay.

From September 18 on the decline in both cash and installment business continued. We feel certain that had sufficient time been permitted to elapse so that actual price and volume figures could have been obtained, the Federal Reserve Board would have deemed amendment No. 1 both unnecessary and inadvisable.

The figures which the Federal Reserve Board used in justifying the amendment, included, according to their own statement, the flush period from September 8 to September 18. The deflationary trend commenced again on September 18 and has continued unabated since that time.

In an effort to obtain the actual facts, our association mailed a questionnaire to all used-car dealers in our State. The answers which we received were from the largest down to the smallest dealers in the State and covered the entire area of the State so should reflect a true picture of the situation in Nebraska.

In compiling our figures every returned questionnaire has been used and no questionnaire has been excluded. Here are the facts and figures disclosed by those questionnaires.

I will brief that, if I may, and give you the conclusions very quickly.

(The information referred to follows:)

Total used-car sales Aug. 18 to Sept. 18:	
Number of cars sold	1,269
Total selling price	$1,102,344.15
Number of cars financed	609
Total amount financed	$475,986.59
Total used-car sales Sept. 19 to Oct. 16:	
Number of cars sold	950
Total selling price	$726,221.09
65.8 percent minus 34.2 percent.	
Number of cars financed	420
Total amount financed	$227,488.43
47.9 percent minus 52.1 percent.	
Total used-car sales Oct. 17 to date:	
Number of cars sold	693
Total selling price	$448,662.48
40 percent minus 60 percent.	
Number of cars financed	244
Total amount financed	$110,457.56
23.4 percent minus 76.6 percent.	

This information will be held strictly confidential.

Only the total figures of these reports will be used at the forthcoming hearing.

Fill out and mail to: Nebraska Used Car Dealers Association, 2502 Farnam Street, Omaha, Nebr.

The CHAIRMAN. Thank you, Mr. Hayward.

Mr. HAYWARD. The total volume of business for the period of from September 19 to October 16 dropped off 34 percent. The total finance business, pay-as-you-go installment business, dropped off for that first month, 52 percent. For the third period, that from October 16 to November 15, the total business dropped 60 percent, and the finance or installment business dropped 65 percent.

We want to call your particular attention to the fact that the foregoing figures come first-hand from the dealer's own place of business. They are undiluted by those of any other industry. They need not be unscrambled from the mass of figures gathered by the Federal Reserve Board. They come from the firing line. They are grassroot figures, if you please.

We are all painfully aware of the recent developments in Korea and the threat these developments present to our country. Even though there is absolutely no basis for the amendment to regulation W from the standpoint of controlling inflation in the used-car market, we would not be here protesting if the amendment now appeared to be reasonably required as a defense measure. However, this is not the fact. We wish to call to your attention the fact that the used-automobile market does not require the use of strategic materials or labor for the reason that the cars have already been manufactured. Moreover, civilian transportation becomes an extremely important factor in modern war production activity. The modest income group in our Nation supplies the bulk of the labor required in defense facilities. Because of the necessity of decentralizing industry as a result of modern warfare, transportation of these workers to defense facilities becomes an important problem. The passenger automobile solves a good part of this problem.

We should also keep in mind that the public owns 95 percent of the used cars in the country and that they have suffered a loss of many millions as a result of the reduction in values as a result of amendment No. 1 to regulation W.

Senator CAPEHART. May I ask a question?

What do you suggest that we do to control inflation?

Mr. HAYWARD. To control inflation?

Senator CAPEHART. Inflation.

Mr. HAYWARD. Well, it depends on the definition of what you call inflation.

Senator CAPEHART. What do you suggest that we do with regard to regulation W? Do you have any specific recommendation?

Mr. HAYWARD. I might answer your first question this way: That in our business, in the used-car end of the business, there is no inflation, there is a very definite deflation, very definitely.

Senator CAPEHART. And you think when the production of new automobiles is reduced, say by 25 to 33⅓ percent, there will still be a reduction in the value of used cars?

Mr. HAYWARD. I doubt if there will be much of a continued reduction from this point. I think we have probably reached a steadier point. However, we cannot anticipate what is going to happen.

Senator CAPEHART. What terms do you recommend at the moment?

Mr. HAYWARD. We recommend the complete elimination of amendment No. 1.

Senator CAPEHART. Have no control at all?

Mr. HAYWARD. No; of amendment No. 1 to regulation W.

Senator CAPEHART. At what terms do you wish to sell?

Mr. HAYWARD. Back to 21 months with a third down.

The CHAIRMAN. Mr. Hayward, we will put all that in the record for you just as you had it.

Without objection, your statement will be inserted in the record at the end of your remarks.

Mr. HAYWARD. The bulk of the customers in a used-car market are unable to pay cash for a car. They must budget their earnings and pay for their car while they are using it and getting the benefit from its use. Many of them need a car in their business or work, and this will be true of defense workers. When the amendment to regulation W took these people out of the market, it took away a large percentage of the customers of the used-car industry. As a result, every used-car dealer in the country has suffered a heavy loss and many of them are being forced into bankruptcy.

No industry can have its business cut off by over 60 percent in a few short months and survive. As we have seen there has been a reduction of 76.6 percent in pay-as-you-go buying of used cars in Nebraska since September 18.

Few governmental regulations have caused more widespread and severe loss to an industry than has the amendment in question. The amendment came when prices in the used-car market were steadily declining. It greatly accelerated that decline and sharply curtailed the volume of business. The amendment came without notice and without hearing and dealt the industry a hard blow at a time when it was trying to survive a steadily declining price level. Is there any wonder why the amendment has met with angry and universal protest?

Those in the automobile industry realize that the sale of used cars is the bottleneck through which the larger part of the production in the industry must pass. We know that 2¼ used cars must be sold before one new-car sale can be considered complete. We feel that continued stagnation in the used-car industry will soon bring about a curtailment in new-car production far greater than that being asked of any other industry and greatly in excess of that declared to be necessary at this stage of our defense effort.

We wish to point out also that the provisions of the present regulation W and amendment No. 1 thereto are much more severe than the provisions in effect during World War II and the postwar years of 1946 to 1948.

We also wish to offer in evidence two advertisements which appeared in the Omaha World Herald on November 26, 1950. One is headed, "Brand new 1950 Buicks for a $50 deposit."

The other ad relates to used cars and is headed, "No deposits—No down payments." Under the plan therein referred to, either a new or used car is delivered under a lease agreement. The reason that we call this to your attention is to emphasize the severity of regulation W together with amendment No. 1. Apparently this dealer found it necessary to devise this plan which circumvents the spirit if not the letter of the regulation. It is obvious that the small dealer who cannot tie up his capital in a plan of this kind will not be able to compete with the larger dealers who can.

(The advertisements referred to follow:)

BRAND NEW 1950 BUICK FOR A $50 DEPOSIT

Immediate delivery of a brand new current model Buick including radio and heater for monthly payments of only $72.

Lied Buick supplies the State license, safety sticker, and pays the taxes. All service operations (except gas, oil, and antifreeze) will be provided by Lied Buick without further cost. Your only requirement is to furnish collision and liability insurance.

Take advantage of this sensational lease offer today. Eliminate worry about depreciation, finance charges, taxes, license fees, service costs, resale trade-in value, etc.

Many large corporations as well as individuals are turning to this sensational lease plan. We solicit your inquiry and will welcome a telephone call to our representatives: Mr. Schertz, Mr. Donahue, Mr. Fisher, and Mr. Wells.

LIED BUICK—NEBRASKA'S LARGEST CAR DEALER

Harney at 27th Ave. Atlantic 4100 Farnam at 26th

LIED—NEBRASKA'S LARGEST CAR DEALER

Now makes it possible for you to take immediate delivery of any of the following used cars under our new sensational lease plan.

The amendment is certainly unfair to the modest-income group who are unable to pay cash for the cars they need. And, of course, it is unfair to those engaged in the business of supplying transportation wherever and whenever it is needed, the used-car dealer. The middle-income group is deprived of the right to spread the pay-as-you-go payments over a sufficiently long period to meet their budgets and are consequently forced into buying lower grade transportation which, through expensive maintenance, will cost them more in the long run. It should also be pointed out that while the regulation requires a down payment of 33⅓ percent, the effect of the 15-month limitation is to make a down payment of 50 percent a practical necessity. The down payment has to be that large in order to keep the monthly payments on the balance within the purchaser's budget.

In conclusion, then, I wish to summarize this matter as we see it.

First, there was no need for amendment No. 1. When it was put into effect the price level and dollar volume of used-car sales were steadily declining and had been for some time. Using the period from August 18 to September 18 as a base, the decline for the month ending October 16 was 34.2 percent in dollar volume and 52.1 percent in pay-as-you-go installment volume. For the month ending November 15, the decline was 60 percent in dollar volume and 76.6 percent in pay-as-you-go volume. From the middle of August to the middle of September prices declined from 20 to 25 percent without any regulation and the effect of the regulation was to accelerate this disastrous decline.

Second, the amendment has caused a severe and unnecessary loss to the used-car industry and to the public.

Third, the amendment is unjust and discriminatory.

Fourth, the amendment discriminates against the middle-class buyer. It deprives him of his right to improve his transportation which has become increasingly necessary in our economy due to the decentralization of industry. The upper-class buyer with accumulated funds is unaffected.

May we request that this committee consider carefully the facts and figures above set forth and that they use their utmost effort in bringing about the nullification of amendment No. 1 to regulation W as affecting automobiles.

The CHAIRMAN. We thank you very much, sir.

(Mr. Hayward's prepared statement follows:)

STATEMENT OF RAY HAYWARD, PRESIDENT, NEBRASKA USED CAR DEALERS ASSOCIATION

Senator Maybank, chairman, members of the committee, and gentlemen, my name is Ray Hayward, of Omaha, Neb. I have been engaged in the automobile business in Omaha for the past 34 years and am owner and operator of Ray Hayward Motors located at 2502 Farnam Street, Omaha, Nebr., and am engaged exclusively in buying, selling, and servicing used cars. I am president of the Nebraska Used Car Dealers Association and have been since its formation in 1946.

The purpose of my appearance before this committee is to protest against amendment No. 1, regulation W, limiting the pay-as-you-go period in the purchase of used automobiles to 15 months, to present facts to this committee which will demonstrate that the amendment was unnecessary and unwise and to urge that corrective action be taken promptly to avert further unnecessary hardship to the used-car industry and to the public.

It is our belief—

1. That the amendment was and is unnecessary either as an inflationary control measure or as a national defense measure.
2. That the amendment caused extreme stagnation in the used-car industry and, unless modified or repealed, will bankrupt a large segment of that industry and adversely affect the entire national economy.
3. That the amendment is unjust and discriminatory.
4. That the amendment imposes a severe anld unnecessary handicap on the efforts of the modest income family to solve their transportation problem.

THE AMENDMENT WAS UNNECESSARY

In our country, a buyer and seller can ordinarily fix the time of payment to fit their convenience. Certainly there must be some pressing public need to justify the taking away of these ordinary fundamental rights of ownership.

The justification advanced for amendment No. 1 of regulation W is that it was necessary for the control of a dangerous inflationary trend in the used-car market. The facts, however, do not support this contention. Not only was there no inflationary trend in the used-car market when the amendment was put into effect, but commencing with the second week in August of this year and continuing to the present time there has been a steady decline in used-car prices.

We are fully aware that the Korean situation which broke late in June of this year caused considerable scare buying in our business as well as in many other lines. It is a fact, however, that by the middle of August used-car prices started down and continued downward through the months of August and September and have continued downward to the present time.

The announcement of regulation W on September 8, to be effective September 18, caused a flush in buying, but at little or no increase in prices. Many purchasers wished simply to take advantage of a smaller down payment and a longer time to pay.

From September 18 on the decline in both cash and installment business continued. We feel certain that had sufficient time been permitted to elapse so that actual price and volume figures could have been obtained, the Federal Reserve Board would have deemed amendment No. 1 both unnecessary and inadvisable.

The figures which the Federal Reserve Board used in justifying the amendment, included, according to their own statement, the flush period from September 8 to September 18. The deflationary trend commenced again on September 18 and has continued unabated since that time.

In an effort to obtain the actual facts, our association mailed a questionnaire to all used-car dealers in our State. The answers which we received were from the largest down to the smallest dealers in the State and covered the entire area of the State so should reflect a true picture of the situation in Nebraska.

In compiling our figures every returned questionnaire has been used and no questionnaire has been excluded. Here are the facts and figures disclosed by those questionnaires. The total used cars sold by reporting dealers from August 18 to September 18 of this year were 1,269 cars for a total sale price of $1,102,844.15. From September 19 to October 16 there were 950 units sold for a total sale price of $726,221.09 which represents a decline of 34.2 percent in dollar volume from the August 18 to September 18 period. From October 16 to November 15 the total number of cars sold was 693 and the dollar volume was $448,662.48, representing a decline of 60 percent from the sales during the period from August 15 to September 18.

The total number of cars financed during the period from August 18 to September 18 was 609 in number and $475,986.59 in dollar volume. The number financed for the period from September 18 to October 16 was 420 for a dollar volume of $227,488.43, which represents a decline of 52.1 percent in dollar volume from the August 18 to September 18 period. The number of cars financed during the period from October 16 to November 15 was 244 for a dollar volume of $110,457.56 or a decline of 76.6 percent as compared with the figures for the period from August 18 to September 18.

We offer in evidence the questionnaires from which the above summaries were made.

(The questionnaires referred to may be found in the files of the committee.)

I want to call your particular attention to the fact that the foregoing figures come first-hand from the dealers' own places of business. They are undiluted by those of any other industry. They need not be unscrambled from the mass of figures gathered together by the Federal Reserve Board. They come from the firing line; they are grass root figures, if you please. They come from the retailers of used cars through whose hands must pass the larger part of the car industry.

From the information I have been able to obtain the situation in Nebraska reflects the general situation throughout the country. Thus we have a drastic regulation justified on the ground that it is necessary to control inflation in the used car market being applied at a time when both prices and unit sales are steadily declining in that industry. It is simply a case of kicking an industry when it is down.

We are all painfully aware of the recent developments in Korea and the threat these developments present to our country. Even though there is absolutely no basis for the amendment to regulation W from the standpoint of controlling inflation in the used-car market, we would not be here protesting if the amendment now appeared to be reasonably required as a defense measure. However, this is not the fact. We wish to call to your attention the fact that the used-automobile market does not require the use of strategic materials or labor for the reason that the cars have already been manufactured. Moreover, civilian transportation becomes an extremely important factor in modern war-production activity. The modest income group in our Nation supplies the bulk of the labor required in defense facilities. Because of the necessity of decentralizing industry as a result of modern warfare, transportation of these workers to defense facilities becomes an important problem. The passenger automobile solves a good part of this problem.

THE AMENDMENT IS CAUSING SEVERE LOSS TO THE INDUSTRY AND TO THE PUBLIC

We in Nebraska are faced with a degree of stagnation in our business which, if it continues and reflects the general condition in the industry throughout the country, will seriously and adversely affect the economy of the entire Nation.

We should also keep in mind that the public owns 95 percent of the used cars in the country and that they have suffered a loss of many millions as a result of the reduction in values as a result of amendment No. 1 to regulation W.

The bulk of the customers in a used-car market are unable to pay cash for a car. They must budget their earnings and pay for their car while they are using it and getting the benefit from its use. Many of them need a car in their business or work, and this will be true of defense workers. When the amendment to regulation W took these people out of the market, it took away a large percentage of the customers of the used-car industry. As a result, every used-car dealer in the country has suffered a heavy loss and many of them are being forced into bankruptcy. No industry can have its business cut off by over 60 percent in a few short months and survive. As we have seen there has been a reduction of 76.6 percent in pay-as-you-go buying of used cars in Nebraska since September 18.

THE AMENDMENT IS UNJUST AND DISCRIMINATORY

Few governmental regulations have caused more widespread and severe loss to an industry than has the amendment in question. The amendment came when prices in the used-car market were steadily declining. It greatly accelerated that decline and sharply curtailed the volume of business. The amendment came without notice and without hearing and dealt the industry a hard blow at a time when it was trying to survive a steadily declining price level. Is there any wonder why the amendment has met with angry and universal protest?

Those in the automobile industry realize that the sale of used cars is the bottleneck through which the larger part of the production in the industry must pass. We know that two and one fourth used cars must be sold before one new car sale can be considered complete. We feel that continued stagnation in the used-car industry will soon bring about a curtailment in new-car production far greater than that being asked of any other industry and greatly in excess of that declared to be necessary at this stage of our defense effort.

We wish to point out also that the provisions of the present regulation W and amendment No. 1 thereto are much more severe than the provisions in effect during World War II and the postwar years of 1946 to 1948.

We also wish to offer in evidence two advertisements which appeared in the Omaha World-Herald on November 26, 1950. One is headed, "Brand new 1950 Buicks for $50 deposits." The other ad relates to used cars and is headed "No deposits—no down payments." Under the plan therein referred to, either a new or used car is delivered under a lease agreement. The reason that we call this to your attention is to emphasize the severity of regulation W together with amendment No. 1. Apparently this dealer found it necessary to devise this plan which circumvents the spirit if not the letter of the regulation. It is obvious that the small dealer who cannot tie up his capital in a plan of this kind will not be able to compete with the larger dealers who can.

THE AMENDMENT IS UNFAIR TO THE MIDDLE INCOME GROUP

The amendment is certainly unfair to the modest income group who are unable to pay cash for the cars they need. And, of course, it is unfair to those engaged in the business of supplying transportation wherever and whenever it is needed—the used car dealer. The middle income group is deprived of the right to spread the pay-as-you go payments over a sufficiently long period to meet their budgets and are consequently forced into buying lower grade transportation which, through expensive maintenance, will cost them more in the long run. It should also be pointed out that while the regulation requires a down payment of 33⅓ percent, the effect of the 15-month limitation is to make a down payment of 50 percent a practical necessity. The down payment has to be that large in order to keep the monthly payments on the balance within the purchaser's budget.

CONCLUSION

In conclusion, then, I wish to summarize this matter as we see it.

First, there is no need for amendment No. 1. When it was put into effect the price level and dollar volume of used car sales were steadily declining and had been for some time. Using the period from August 18 to September 18 as a base, the decline for the month ending October 16 was 34.2 percent in dollar volume and 52.1 percent in pay-as-you go installment volume. For the month ending November 15, the decline was 60 percent in dollar volume and 76.6 percent in pay-as-you-go volume. From the middle of August to the middle of September prices declined from 20 to 25 percent without any regulation and the effect of the regulation was to accelerate this disastrous decline.

Second, the amendment has caused a severe and unnecessary loss to the used car industry and to the public.

Third, the amendment is unjust and discriminatory.

Fourth, the amendment discriminates against the middle class buyer. It deprives him of his right to improve his transportation which has become increasingly necessary in our economy due to the decentralization of industry. The upper class buyer with accumulated funds is unaffected.

In conclusion may we request that this committee consider carefully the facts and figures above set forth and that they use their utmost effort in bringing about the nullification of amendment No. 1 to regulation W as affecting automobiles.

The CHAIRMAN. The next witness is Mr. McCabe, Chairman of the Federal Reserve Board.

Mr. McCabe, will you testify in your own way? You have a prepared statement; have you not?

Mr. McCABE. Yes.

The CHAIRMAN. Now, I don't know how long this hearing will last, but is Mr. Cain here?

Mr. CAIN. Yes.

The CHAIRMAN. If we don't get through by 12 o'clock, we have important business at the Senate today, and we will have to recess this hearing.

It has been suggested that we go on over to Monday on this hearing, if we can't finish today. I am hopeful we can get through by 12 o'clock. I won't be here Monday, but I have asked Congressman Brown, the vice chairman, to hold a hearing then, if one is needed.

Mr. CAIN. Mr. Chairman, the National Used Car Dealers' Association has devoted some 3 months of very intensive study to this, and we would like a full hour and a half, because we don't agree with one thing that is going on here, and we intend to prove it and answer every question put by your committee.

Congressman PATMAN. We can't do that this afternoon on the House side.

The CHAIRMAN. There is a rent-control conference at 3 o'clock. I brought this up because I know we have Mr. McCabe scheduled as the first witness, and Mr. Cain as the second. If Mr. Cain's testimony is going to take an hour and a half, the Senate will be in session before he concludes. At 3 o'clock we have a rent-control conference, plus the Kefauver resolution to be considered in the Senate.

Mr. CAIN. I should like to have an hour and a half on Monday morning, then.

The CHAIRMAN. All right; I will speak to Congressman Brown when he gets here.

Mr. McCabe, will you proceed in your own way, please?

STATEMENT OF THOMAS B. McCABE, CHAIRMAN, BOARD OF GOVERNORS, ACCOMPANIED BY RALPH A. YOUNG, DIRECTOR OF RESEARCH; FREDERICK SOLOMON, ASSISTANT GENERAL COUNSEL, AND WOODLIEF THOMAS, ADVISOR, FEDERAL RESERVE BOARD

Mr. McCABE. The Board of Governors of the Federal Reserve System welcomes this opportunity to report to your committee on its regulation of consumer credit and particularly automobile installment credit, as authorized by title VI of the Defense Production Act of 1950.

At the outset, I should like to emphasize that the Board has viewed its stewardship under the Defense Production Act in the light of its responsibilities for monetary and credit policies that will help maintain a stable value for the dollar and preserve a strong economy. In carrying out its responsibilities under the act the Board, of course, has also been guided by the observations of the House and Senate Banking and Currency Committees concerning the inflationary role of consumer and mortgage credit under current conditions, made in their respective reports on the Defense Production Act.

The CHAIRMAN. Now, Mr. McCable, before you go too far into your statement; I know you don't mind being interrupted?

Mr. McCABE. No, sir.

The CHAIRMAN. The main testimony here yesterday about the Federal Reserve Board was that it didn't follow that section of the law which required consultation with industry and trade association representatives.

Representative PATMAN. Section 709.

The CHAIRMAN. And the charge was made that two statements the Board made were contrary—there is nothing personal about this—but one statement made by the Federal Reserve Board at one time was to the effect that it was going to have a conference, and at another time that time was of the essence and a conference couldn't be had. I don't have the testimony of the witness before me, but the committee members all felt that the trade association should have a hearing. I think that was the unanimous opinion of all of the committee members. It was stated by the president of the National Automobile Dealer's Association that you hadn't given them a hearing; that you had only called them up after the amendment to regulation W went into effect.

The committe members are friendly toward the Federal Reserve Board, and some are friendly toward the regulation, but even they expressed themselves unanimously to the effect that the association should have been heard.

Representative PATMAN. That is correct, sir; and section 709 is the section referred to.

Senator ROBERTSON. You will recall that I said at the hearing on Wednesday that it is inconceivable to me that the Federal Reserve Board would refuse granting this industry a hearing on the regulation W, especially with respect to the time limit, on the down payment of automobiles, but the witness on page 2 of his prepared statement says that in all some 750 trade consultations were involved in this preregulation exploration. I suggest that we let him——

The CHAIRMAN. I don't question that.

Senator ROBERTSON. I suggest we let him present his prepared statement, and then if it doesn't cover the issues raised Wednesday, that he didn't carry out the law with respect to consultation, we can ask him specific questions on that point and give him an opportunity to expand anything.

I just happened to look on page 2, and saw that one statement.

The CHAIRMAN. That is correct; I notice it so states on page 2, but the only reason I raised this question now is so that when Chairman McCabe gets to page 2, I hope he will expand that point. It is not a question of the Federal Reserve Board conferring only with banks in the West, or somebody here or somebody there. As I understand, the National Association of Automobile Dealers is an association of some 34,000 members, and they know more about automobiles than other people. They said they were not allowed to be heard.

That is the point I wish to bring up.

Mr. McCABE. Senator Robertson, in view of the fact that that is a very important point for this committee, I wouldn't object——

Representative PATMAN. And there is a direct charge that at one place you said you had conferred with them, and later on said that you had not conferred with them, and gave as your reason the language of the statute. It would be well to clear that up.

Senator ROBERTSON. That will be entirely satisfactory to me. He can state his case in any way he sees fit, so far as I am concerned.

Mr. McCABE. The statement was quite a surprise, because of statements made in the NADA magazine, dated October 1950. I would like to read from the lead article, in this issue of their official magazine:

> NADA officials did a great deal of work and cooperated closely with the Federal Reserve Board during the period that the new regulation W was being drafted. They compiled and presented data showing that the terms should not be so strict that they would work a needless hardship on persons who have the greatest need for reliable transportation.
>
> NADA is continuing its frequent contracts with the Board, which has been working on interpretations necessitated by special problems that have arisen.

Now, that was in their official magazine.

Representative PATMAN. What is the date of that, Mr. McCabe?

Mr. McCABE. This is October 1950.

Representative PATMAN. When did your second regulation become effective?

Mr. McCABE. The second regulation, or the amendment, became effective on October 16, sir.

Representative PATMAN. October 16?

Mr. McCABE. Yes.

Now, I can give you the chronological order of our contacts with the NADA.

Representative PATMAN. I think that would be interesting, Mr. McCabe.

Mr. McCABE. On August 2, Mr. Haller, president of that association, and Mr. Deo, and Mr. Barnhart held a conference at our Board with the members of our staff.

On September 5, there was another conference with some of the gentlemen from that organization.

On October 4, we received a telegram which was put in the record here the other day. The following day Mr. Deo and Mr. Barnhart of that organization called on our people at the Federal Reserve. I can't recall whether that specific telegram was answered; I think he said it wasn't. But our people understood that it was not necessary from the fact that they called the following day. They considered the call a sufficient answer to the telegram.

The CHAIRMAN. Will you repeat that, sir?

Mr. McCABE. They sent a telegram on October 4——

The CHAIRMAN. You say the telegram wasn't answered?

Mr. McCABE. The gentlemen here, Mr. Deo and Mr. Barnhart, called at the Federal Reserve the following day, after the telegram was received, so that the record will show that they were in communication with us, personal communication, after they sent the telegram.

The CHAIRMAN. That is true, Mr. McCabe, but don't you think in justice to an association that big that the Federal Reserve ought to at least answer the telegram?

Mr. McCABE. If you can manage. At that time, sir, we were just flooded. We answered by meeting with them as they asked us to do.

The CHAIRMAN. You should come around to a Senator's office when we are going to pass rent control and see how many telegrams we get, and that we have to answer.

Mr. McCABE. Then on October 16, they called again. This time Mr. Haller, Mr. Deo, and other officers met with Governor Evans of our Board, and members of our staff. Subsequently I addressed a communication to them, a letter which was put in the record here the other day, in which I invited them to submit to us fully any facts that they wanted to present.

I have no recollection that we received any facts in answer to the request, of my letter. We received nothing from them whatsoever.

The week preceding October 11 we invited them to participate in a conference where we were considering credit terms on open accounts and single-payment loans. Over the past there has been the closest kind of relationship with their Washington representatives. I can't recall, and in talking with our staff they can't recall, that they were turned down on any request to come in, with one exception, I think. They called one day when we were having protracted conferences on open accounts, and single-payment loans. On the whole, I think the record clearly shows, Senator Maybank, that our doors have been open to receive any of their delegations as well as from other organizations. I would just like to state this for the record.

The CHAIRMAN. I brought it up because that was mentioned in the hearing.

Representative BROWN. Mr. McCabe, will you pardon me?

I received some 30 or 40 petitions and letters from automobile dealers which were promptly answered. My objection to it is I didn't get any results.

Mr. McCABE. I can appreciate that, sir. I might go on to say——

Representative PATMAN. Just a minute, Mr. McCabe. You have seen Mr. Mallon's statement; have you not, Mr. McCabe?

Mr. McCABE. I think I have the complete statement.

Representative PATMAN. Can you reconcile the statement he made in one case where you stated in an order, if he is correct, that you conferred with the representatives, and then in another place he said that you said, as Chairman of the Board, that you have not conferred with them for the reason that you didn't have the time, or it wasn't practicable, or something like that.

Can you reconcile those two statements issued by the Federal Reserve Board?

I am just quoting from memory.

Mr. McCABE. Yes; one related to the original regulation, and the other related to the amendment.

You see, the original regulation became effective on September 18. We announced the amendment on October 13, I think he referred there to the period between September 18 and October 13.

I would like to say this: That even before Congress passed the Defense Act, we started conferences over the country with people that might possibly be affected by regulation W, because it seemed very clear to us that the Congress was going to act on it, but we tried not to lose any time. Within an hour after the President signed the act we had the regulation out. We felt it was important to act promptly.

I have a rather complete report here on conferences, if you are interested. I don't believe any Government agency ever in the period of time since we began to hold these conferences ever held, in reference to a prospective regulation, as many conferences as we have throughout the country on this regulation in a similar period of time.

The CHAIRMAN. The protest is mostly about the amendment; is it not?

Mr. McCABE. About the amendment; yes. Shall I go on with my statement.

The CHAIRMAN. Yes; go ahead.

Mr. McCABE. There has been a great deal of misunderstanding and confusion on this subject of consultation and I would like to outline some of the considerations on this subject. I believe it will help to clarify the question.

Section 709 of the Defense Production Act states in part that:

> Any rule, regulation, or order, or amendment thereto, issued under authority of this Act shall be accompanied by a statement that in the formulation thereof there has been consultation with industry representatives, including trade association representatives, and that consideration has been given to their recommendations, or that special circumstances have rendered such consultation impracticable or contrary to the interest of the national defense, but no such rule, regulation, or order shall be invalid by reason of any subsequent finding by judicial or other authority that such a statement is inaccurate.

All aspects of regulation W were thoroughly explored with representatives of various industries before the original regulation was issued effective September 18, 1950. That fact was set forth when the regulation was published in the Federal Register.

The Board fully recognized at that time that trade representatives favored terms even easier than those prescribed in the original regulation. As a result of those consultations the Board also was well aware that many sellers and lenders would not be in sympathy with the October 16 amendment. After giving careful consideration to those facts, the Board concluded that the terms issued effective September 18 and as amended effective October 16 should be presented in the public interest in order to help in protecting the national economy and the defense effort against the disastrous consequences of further inflationary pressures.

The Board was also faced with the fact that in the period prior to the September 18 effective date of the original regulation there had been a large expansion of credit as a result of forward buying and high-pressure selling based on the anticipated terms of the new regulation. In addition to the fact that the Board was fully cognizant of the view of the industry and gave them full consideration, the publicity attendant upon further consultation with the trade would have raised serious danger of further expansion of credit similar to that which preceded the September 18 effective date.

It would be hard to imagine a clearer case in which further consultation would be impracticable. As Senator Sparkman stated on August 10, 1950, in explaining the provision regarding consultation (Congressional Record, p. 12378):

> The bill would require consultation wherever practicable. Of course, there will be some occasions where it would not be appropriate to consult in advance. There may not be time, when speed is vital. Sometimes giving advance notice of a proposed restriction would defeat the purpose of the restriction, or consulting

a few people in an industry would give them an unfair advantage over the rest of the industry.

In the circumstances, the Board was convinced, and stated in publishing the amendment in the Federal Register, that: "Special circumstances have rendered impracticable and contrary to the interest of the national defense consultation with industry representatives, including trade association representatives, in the formulation of the above amendment; and, therefore, as authorized by the aforesaid section 709, the amendment has been issued without such consultation."

Senator ROBERTSON. I would like to ask one question.

As I gather, the chief complaint made to us was that a hearing before your Federal Board was not granted. Did you ever get a request for a hearing of the automobile interests; either used car dealers or new car dealers, before the full Board, that was turned down?

Mr. McCABE. I have no recollection of a formal request of that kind, Senator Robertson, until the past few days. There is one request for a formal hearing pending now, that came through this committee.

The CHAIRMAN. Yes; we thought they should be given a hearing.

Mr. McCABE. May I explain that the Board members have specific assignments; that is, Governor Evans has Regulation W, Governor Norton has Regulation X, another member of the Board will have margin requirements, and another will have reserve requirements.

We cover quite an area, and in order to facilitate our work we assign different governors to the different areas. They in turn report to the Board.

Senator ROBERTSON. Then I understand you recall no specific request for a meeting of the full Board, and even if it had been made, it was not in keeping with the procedure of your Board to have every member sit on every detailed issue that is handled by the Board.

Mr. McCABE. That is right.

Senator ROBERTSON. But the member of the Board in specific charge of that conducts the hearings, and makes a record which then becomes available to the full Board, and the action that is ultimately taken is the action of the full Board?

Mr. McCABE. That is right, sir.

Senator ROBERTSON. Based upon the evidence that had been assembled by the member that conducts the investigation.

Mr. McCABE. That is very well put, Senator Robertson.

Senator CAPEHART. Mr. McCabe, are you going to give in your statement the justification for reducing the 21 months to 15?

Mr. McCABE. I think so. If you want to bring it out by questions——

Senator CAPEHART. I think we are interested at the moment in why you reduced the terms from 21 months to 15 months.

Mr. McCABE. I think you will get that fairly clearly in the statement, sir.

The Federal Reserve has acted to carry out its assignment in the light of its understanding of the objectives that Congress had in mind. As long as you leave the responsibility with the Federal Reserve we believe you will expect us to do our duty in accordance with the objectives of the Congress.

During the period the Congress was deliberating and acting on the Defense Production Act of 1950—from July 19 to September 1—business and consumer markets were being swept by hysterical buying, prices in practically all sectors of the economy were advancing sharply, and inflationary pressures were generally rampant. The Congress, the administration, and the public were very apprehensive about these developments both because they threatened the very foundations of our free enterprise society and because of their adverse effects upon our preparedness efforts. I can assure you that we at the Federal Reserve System were very deeply concerned. In the light of this background, the intent of Congress with respect to title VI of the Defense Production Act seems to me clear. Let me here state briefly my beliefs in this respect:

One, I believe the Congress at that time was deeply conscious of the concern felt by the American public over the value of their dollars, and wished to take every practical step to preserve the integrity of our money.

Two, I believe also the Congress intended that adequate taxes and general and specific credit controls should be the first reliance in maintaining the value of the dollar.

Three, I believe the Congress intended that the powers to regulate consumer and real-estate credit should be used to the fullest extent practicable, as a means of limiting demand to the available supply in the affected fields, thus restraining further price increases

Four, I believe also that the Congress had in mind that the use of these powers, in limiting demand, would help in the transfer of resources from the production of civilian goods to the production of military goods without unnecessary price inflation.

Representative PATMAN. Can you deal with credit controls and taxes without also considering profits, Mr. McCabe?

Mr. McCABE. You mean without Congress considering profits?

Representative PATMAN. Yes.

Mr. McCABE. I think Congress has a bill before it now to deal with that, sir, if I read the press correctly.

Representative PATMAN. Should you consider and make recommendations concerning profits?

Mr. McCABE. Concerning the profits tax?

Representative PATMAN. No; not profits tax—profits; and also the profits tax.

You see, if you carry out an inflation-control program, you would have to deal with all angles; wouldn't you?

Mr. McCABE. The primary element we are dealing with now is credit. That is as far as our function goes.

Representative PATMAN. All right.

Senator ROBERTSON. May I ask a question there?

Is it true that Governor Szymszak made a speech in the south in October in which he very fully discussed the subject of inflation, and the very phases of it outside of the jurisdiction of his board that ought to be tackled by the Government?

Mr. McCABE. Well, we have made several statements on it, sir.

The CHAIRMAN. Was that speech ever put in the record?

Senator ROBERTSON. I promised to put it in. I have been a little disturbed over the war in Korea, and as a matter of fact I thought maybe the picture had changed enough between October and December that maybe we could get a better statement in, though that was mighty good at the time.

The CHAIRMAN. He sent one to me. It may, without objection, be inserted in the record at the end of Mr. McCabe's statement.

Representative BROWN. Mr. Chairman, I suggest that the witness complete his statement, and then we ask him our questions.

The CHAIRMAN. All right, sir.

Mr. McCABE. During the period when the Defense Production Act of 1950 was under study by the Congress, the Board and its staff, in collaboration with officials of the 12 Federal Reserve banks and their 24 branches, carried on intensive studies of the consumer-credit business, including numerous consultations with the major segments of the trade. In all, some 750 trade consultations were involved in this preregulation exploration. Officers of the 12 Federal Reserve banks conducted a total of 725 of these regional conferences with trade groups and businessmen prospectively subject to consumer-credit regulations. The Board and its staff consulted on 25 different occasions with such groups, including the major national trade associations affected.

As evidence of the way in which the Board has consulted with the interested public while making decisions regarding regulation W, I should like to quote from the October issue of the official magazine of the National Automobile Dealers Association. The Auto Dealers said:

NADA officials did a great deal of work and cooperated closely with the Federal Reserve Board during the period that the new regulation W was being drafted. They compiled and presented data showing that the terms should not be so strict that they would work a needless hardship on persons who have the greatest need for reliable transportation.

NADA is continuing its frequent contacts with the Board, which has been working on interpretations necessitated by special problems that have arisen.

Against this broad background of study and consultation, a draft of the rgulation was prepared and considered by the Board after submission to all of the Federal Reserve banks. Thus, the Board was ready for formal action once authority to regulate consumer credit was enacted into law.

The Board issued regulation W on September 8 within the hour after the President signed the Defense Production Act of 1950. This interval was considered the minimum period for placing the regulation in the hands of registrants and enabling them to adjust their operations to it. The Board's decision as to the terms of the consumer-credit regulation was based on the practical consideration that the regulation should restrain consumer demand and credit growth in the most volatile segment of the field: namely, the installment-financing segment.

Taking the field of installment credit as a whole, however, the initial minimum down payment and maximum maturity requirements under regulation W were only moderately restrictive in relation to practices generally prevailing in the installment-financing trade. In the used-car field, particularly for older models, and also in some appliance lines, the regulatory terms were more liberal than those practiced by the conservative trade. Data supplied by the trade indicated that the bulk of the transactions being written on new- and late-model automobiles and on other items of relatively high unit price in the months just prior to the regulation were somewhat more liberal as to down payment, maturity, or both, than the introductory terms of the regulation. Information subsequently obtained by the System's own field investigators has confirmed this basic finding.

In announcing the new regulation W to the press, the Board expressly stated that, if the terms established did not provide an adequate restraint on consumer demand, as well as on further rapid inflationary expansion of installment credit, the Board was prepared to reexamine its regulation and establish more stringent terms. On October 13, 5 weeks after the issuance of the original regulation, the Board announced amendment No. 1 to regulation W establishing, effective October 16, minimum down payments and maximum maturities substantially stricter than those which became effective on September 18. This action was taken 3 days after the Board had issued regulation X, to be effective October 12, establishing down payment and maturity terms on mortgage credit to finance newly constructed houses. The attached table compares the new terms of regulation W with those provided in the initial regulation.

(The table referred to follows:)

Minimum down payments and maximum maturities under regulation W

Listed articles and loans	Minimum down payment [1] (percent)		Maximum maturity (months)	
	Sept. 18–Oct. 15	Oct. 16–	Sept. 18–Oct. 15	Oct. 16–
Listed articles:				
Passenger automobiles	33⅓	33⅓	21	15
Major appliances [2]	15	25	18	15
Furniture and floor coverings	10	15	18	15
Home improvement materials, articles, and services [3]	10	10	30	30
Loans:				
To purchase listed:				
Articles	(4)	(4)	(4)	(4)
Unclassified			18	15

[1] Exemptions: Sept. 18–Oct. 15, listed articles costing less than $100; beginning Oct. 16, those costing less than $50.

[2] Includes radios, television, refrigerators, food freezers, phonographs, cooking stoves, ranges, dishwashers, ironers, washing machines, clothes driers, sewing machines, suction cleaners, room-unit air conditioners, and dehumidifiers.

[3] Includes heating, plumbing, and other household fixtures.

[4] Requirements same as on installment sales of the respective articles.

I should like to make entirely clear three aspects of the Board's amendment No. 1 to regulation W. First, the Board's amendment action was taken in the light of the total economic and credit situation. It was taken not primarily because of developments in the specific fields during this period but because the magnitude of the general inflationary problem became more clear. It reflected the Board's apprehension over the continuing strong inflationary trends in the economy generally as well as over the continuing strong consumer demands for durable goods and accompanying expansionary trends in installment credit. Figures now available show that loans of commercial banks expanded 5.7 billion dollars from the end of June to October 25 of this year, the largest loan expansion in such a short period of time in the country's history. More than 25 percent of the loan expansion was the direct or indirect result of growth in consumer credit and another fifth was due to a rise in bank holdings of real-estate mortgages. This loan expansion was accompanied by a further increase in bank holdings of corporate and municipal securities. The total expansion of bank holdings of loans and non-Government securities was the immediate cause of a 3-billion-dollar increase in the economy's already large supply of money.

Second, the Board was seriously concerned, as were other agencies of the Government, over the undesirable and hindering effects of inflationary pressures generally on the rearmament, stockpiling, and industrial-expansion programs. Appropriations for national defense were able to buy far less this fall than contemplated when Congress passed them.

Third, the Board took its action only after consultation with other interested agencies of Government.

I should now like to report on what I think the effects of regulation W have been. To report first in general terms: the regulation has limited the rise in prices in the durable-goods field; it has limited somewhat the further expansion of the money supply; because of these two effects, it has limited the advance of prices generally; and, lastly, it has removed some of the pressure which would have hampered diversion of materials and manpower to the military effort. These results have been of great benefit to the American people.

Let us now examine the effects of the regulation in the automobile field, with which your hearings are particularly concerned. At the time the Congress was deliberating the Defense Production Act, new cars were not generally available at list prices; that is, unloaded of extra equipment or special premiums, to the great bulk of the people who wanted to buy them. With respect to used cars, average retail prices of a representative popular priced 1949 model car rose from approximately $1,430 in June to $1,635 in August. On the average, monthly payments to buy the 1949 model used car had risen from $56 to $63. It is clear that inflation in the retail automobile markets was impinging adversely on both those who bought higher-priced cars and those who bought lower-priced cars.

Let us look at the retail automobile market today compared with August. News care are available to the buying public at list prices, without required extras or premiums. On the basis of advertised prices, a popular-priced 1949 model used car could be purchased in leading cities in November for $1,280, compared with $1,635 in August. The buyer of such a model had to pay one-third down or $545 in August. The unpaid balance in August was on the average paid off in 21 months at the rate of $63 per month. In November the balance was required to be paid off in 15 months or at the rate of $67 per month.

A great proportion of the cars bought by consumers in the United States are used cars. In 1949 it is estimated that 6.9 million used cars were bought by consumers as compared with 4.5 million new cars. Old cars predominate in the holdings of the population. It is estimate that 69 percent of the passenger cars in operation are more than 3 years old. The man of average income typically buys a used car. In helping to keep used cars at a reasonable price and to make new cars readily available at effective prices at or below the list, regulation W has been of great service to the American consumer. It has done a great deal to combat the price inflation which seemed last summer to be getting completely out of hand.

At the present time about 20 million out of our 38 million privately owned cars are prewar cars, and when sold as used cars have a price of around $500 or less. Before imposition of regulation W, if a purchaser bought a $450 car on a basis of one-third down, he paid $150 cash and paid off the balance at a rate of $24 to $28 per month, depending on whether the maturity was 15 or 12 months.

Regulation W has not affected the typical terms of payment for these cheaper cars. One-third down and 12 or 15 months to pay, if dealers will finance on these terms, are still permitted. Good usable cars for performing a great portion of the daily travel of the public continue to be available under regulation W on purchase terms of about $25 a month or less. These are the cars which are customarily bought and used by large numbers of our working population who are looking for transportation and not for the latest style and gadget.

Supply developments in the retail automobile market following the introduction of regulation W and its subsequent tightening are, of course, not all attributable to the regulation. Some buying that would otherwise have been done this fall was accelerated and done in the summer months. The fall is typically a season of declining automobile travel and softened demand for cars. The industry has been preparing new models, and this fact has no doubt induced some deferment of new-car buying by purchasers who would otherwise be in the market. But the important fact for these hearings is that the market with regulation W is less inflationary and more competitive than it was. It is more of a buyers' market and less of a sellers' market. It is in every respect a more normal market situation. Despite the role of other influences, I believe that regulation W has contributed significantly to this more healthy market condition.

Inventory of new cars was at an abnormally low level when consumer-credit regulation was inaugurated. This enabled manufacturers to go ahead full tilt at high levels of output despite the regulation. In recent weeks production has been down from earlier peak rates, the lower level reflecting primarily model changes, but the current rate of output of about 120,000 cars a week is still, historically speaking, a very high rate. Some inventory accumulation by dealers has recently taken place, but new-car inventory for the new-car dealer trade as a whole is still not above traditional relationships with sales. The latest retail sales reports with respect to new cars indicate that November sales were probably one-tenth above a year ago. Sales a year ago were in large volume. The rise in retail inventory of new cars probably tapered off considerably in November.

The foregoing observations relate to the automobile market as a whole. The situation will vary for different makes of cars, and among individual dealers. Such differences are matters for competition and not regulation to iron out. Regulation W affects the general terms of sale on all credit.

With respect to the size of the current automobile inventory, trade sources estimate inventory of new cars at about 500,000 on November 1, with output at an annual rate of over 6 million cars now, with dealers generally in the best financial condition of the automobile industry's history, and with the use of materials already ordered curtailed, it would seem that inventories are not excessive.

It has been argued that regulation W will throw men out of work. But to date unemployment has been at a low level and employment has reached a new high level. If some unemployment does develop, the principal cause will be the dislocations that are inevitable in the transition to military production, and not regulation W.

It is sometimes claimed that regulation W has prevented the American workingman from buying the automobile that he needs to provide his transportation. It is said that regulation W favors the rich as against the poor, that it bars from the market the low income man with his credit and leaves the high income man free to buy with his cash. The truth is that regulation W has helped rather than penalized the person of moderate or low income. It helps him where he is most in need of help—in his pocketbook.

Cars, new or used, are available at various prices to meet the budgets of practically all workers who want or need cars. And these cars cost less than they would have cost in the absence of regulation W. Furthermore, prices are lower for other articles listed in the regulation, and also for articles not listed, than they would have been without regulation W. The American consumer is better off as a result of regulation W.

We must of course bear in mind that the borrower is getting credit, not a gift. This credit must be paid back, and with finance charges added, too. In other words, when the consumer increases his expendable income of today by borrowing, he is, at the same time, reducing his expendable income of tomorrow. The thing that limits the man of low income is his income. He doesn't get something for nothing by borrowing to go into the market to bid against others for a limited supply of goods. He merely helps to push up the price of that limited supply of goods and increases the burden that he must meet out of his same income.

To encourage the man of low income to do that under present conditions is to encourage him to engage in a contest where he is at the greatest possible disadvantage. The wealthy can always meet high prices more easily than can those of lower incomes. Price is exactly the field where the man of low income is at greatest disadvantage. Under current conditions, the low-income man will find that the bait of easier credit is carried on a hook of higher prices.

It is of the very essence of regulation of consumer credit that the business of those financing consumers will be affected. If their business were as great under regulation W as it would be in the absence of the regulation, then there would be no point to having the regulation. Any contraction of the business of these financing agencies is not an end to be desired as such. But it is a necessary consequence of limiting demand by these means. The sacrifices of those called into the armed services are not in themselves desirable but they are necessary.

By and large the consumer finance agencies have proved themselves extremely adaptable. In time of peace they have facilitated demand which has contributed to our great production and to our high standard of living. In war they have proved their capacity to adopt themselves to new conditions and stand by till a day when they can again serve their basic function.

We must continually remind ourselves, and others, that we cannot get something for nothing. We can't buy more goods than can be produced. To weaken or abolish regulation W will not produce more goods. If we are to succeed in maintaining stable prices and preserving confidence in the value of the dollar, we must make a determined effort to mop up all sources of excess buying power which tend to make the demand for goods greater than available supplies. Otherwise, we know from past experience what to expect.

In conclusion, I would like to make this point clear: that selective credit controls including regulation W will not of themselves check all of the inflationary forces. More fundamental than selective credit controls is an adequate program of fiscal and general controls that restrains all types of bank credit and thereby curtails the total dollar volume of private expenditures.

The CHAIRMAN. Mr. McCabe, I want to make one suggestion. Having been on this committee all during the last war, I suggest that no regulation should be made effective before the day on which it is published in the Federal Register. Amendment No. 1 to regulation W was made effective the day before. That is what we were told yesterday. During World War II failure to follow this practice caused so much confusion because the people affected by the regulations cannot abide by them until they know the terms of the regulation. It caused so much trouble in 1942, 1943, and 1944 when these regulations were put into effect before they were published. I do hope we can work together on that so we will not be asked about a regulation that is not printed, that we can cannot answer, and when the people themselves do not know what is included.

Mr. MCCABE. When we issued the regulation originally in September, there was a 10-day lapse between the announcement and the effective date. Now, many in the trade begged us, said to us, "the next time you amend this, do not give a 10-day lapse."

The CHAIRMAN. I did not mean that. I mean if you can put it into effect the same day. Of course, the Register is printed on certain days. One time I remember how the potato situation was so badly affected. There was an order issued on potatoes, the Register did not come out, and so it went for a couple of days. People did not know about it, and were charged with violating the law. The problem went to court, and they could not do anything about it. It just caused a lot of confusion. You will save yourself a lot of headaches, and surely save us some if you can do that.

Mr. MCCABE. The answer here is the one you indicated—the Register is published only on certain days. The amendment was filed by the 16th, but there was no issue until the 17th.

Recently a statement was prepared by the technical group of interested agencies in Government in cooperation with the research staff of the Board of Governors of the Federal Reserve. This statement is concurred in by Mr. Symington.

The CHAIRMAN. Do you wish to read that, sir?

Mr. MCCABE. I will be glad to read it, or put it in the record, at your pleasure. I think it is a very pertinent statement, and should receive the very serious consideration of this committee.

Senator ROBERTSON. Could you in a minute or two summarize what it deals with?

The CHAIRMAN. How long is it, Mr. McCabe?

Mr. MCCABE. Six pages.

Senator ROBERTSON. I would have no objection to it being printed in the record, but for the benefit of the committee, if you could give us the highlights of it.

Mr. MCCABE. The statement reads as follows:

CURRENT DEFENSE REQUIREMENTS, INFLATIONARY PRESSURES, AND SELECTIVE CREDIT REGULATIONS

Developments in Korea have conclusively demonstrated the extremely acute danger confronting the free domestic world. Consequently the United States is now striving to build rapidly both its military and economic strength. To do so under circumstances of high business activity and full employment is not simple. It necessitates some Government intervention in the affairs of business and sacrifice on the part of all groups of our people.

Recognition of these facts resulted in the passage of the Defense Production Act which was signed by the President on September 8, 1950. This act provides authority for a system of priorities and allocations for materials and facilities, authorizes requistioning, provides for financial assistance for expansion of productive capacity and supply, provides for price and wage stablization, provides for the settlement of labor disputes, and authorizes special controls over consumer credit and real estate construction credit. These measures were authorized to facilitate the production of goods and services necessary for the national security, with minimum dislocation of the country's economc organization and price structure.

Immediately prior to the outbreak in Korea the economy was beginning to show signs of inflationary strain. Prices were rising, business was rebuilding its inventories, and industrial activity was at a new peacetime peak. The action of the United Nations, together with the strong support of its policy by the United States, made it clear that inflationary pressures would be continued and intensified. Accordingly, businessmen and consumers began actively competing for goods.

Desire for goods was stimulated by prospective large military expenditures and the fear of shortages. Congress appropriated nearly $17,000,000,000 additional for the Defense Department, the Mutual Defense Assistance Pact, stockpiling, and atomic energy. This appropriation, together with the similar amount originally appropriated for these purposes in fiscal 1951, brought the total to $33,000,000,000. A second large supplemental defense appropriation for fiscal 1951 just submitted to Congress would bring the total to over $50,000,000,000.

From the beginning of the Korean development, Government agencies have been closely following its effects on the United States economy. Abrupt and drastic changes have already taken place and further significant changes are in prospect. In the brief period of 4 months from June to October personal income (annual rate) increased over $10,000,000,000, or 5 percent. Mining and manufacturing production increased 8 percent. Unemployment decreased from 3.4 million to 1.9 million in October and 2.2 million in November, a level which is not far from a minimum when workers are free to shift jobs. Many basic industrial materials are in acutely short supply despite increased domestic output and larger imports.

The pressure of increased consumer and business spending has been strongly registered in primary market prices for these industrial materials. From May to the end of November the following price advances have been recorded: copper, 26 percent; steel scrap, 34 percent; zinc, 47 percent; lead, 47 percent; wool tops, 64 percent; tin, 80 percent; and natural rubber, 157 percent. These increases do not, however, tell the entire story. Significant premiums are being paid for delivery of critical materials in the gray market. In the case of zinc, for example, the spot price is 17½ cents per pound but gray market prices of more than double this amount have been reported.

All this has happened even before accelerated Government procurement has had time to make a significant direct impact on the market. As Government procurement is stepped up and as expansion of industrial capacity continues to accelerate, shortages and inflationary pressure will be greatly intensified.

Despite the great growth in our industrial capacity during and subsequent to World War II, our capacity was hardly sufficient before the Korean outbreak to meet the needs of a dynamic and fully active economy already profoundly affected by our changed position in world affairs. On top of an already tight situation in June there has been "abnormal" buying on the part of business and consumers to accumulate inventories. Capital expansion has also accelerated. The urgency of accumulating critical materials for strategic stockpiles has increased and a start has been made on a greatly increased Government procurement program. These developments have tremendously overtaxed the capacity of our economic system at many points and resulted in very great inflationary pressures. Thus for many basic materials, available supplies have already become seriously inadequate to meet combined civilian and military demands. Despite all efforts to expand output of critical materials, the supply-demand gap may be expected to widen as defense production picks up speed. Furthermore, since complete priority must be accorded to military needs, the full impact of supply deficiencies is registered in the civilian sector of the economy.

To meet this situation of developing material shortages and inflationary pressures, action has been taken along several lines. Taxes on individuals and corporations were raised last summer and an excess-profits tax is now under consideration by Congress. Various actions have been taken in the credit field, including the adoption and strengthening of regulation W, relating to installment credit terms on passenger automobiles and various other consumer durable goods, and adoption of regulation X, relating to terms of borrowing for the purpose of building one- and two-family houses. These regulations conformed to the needs of the situation as appraised by the responsible agencies. These regulations went into effect quickly and have already had important effects in limiting demands and checking inflationary developments. Thus in the field of consumer durable goods, partly as a result of regulation W, sales have declined and distributors have been able to replenish their stocks and market conditions have become more normal. The amount of installment credit, moreover, in October showed little increase for the first time in many months. In the residential building field the volume of building being started is below what it was earlier in the year and probably below what it would have been without changes in credit terms, including changes in FHA and VA terms beginning last July as well as adoption of regulation X and related further changes in FHA and VA terms in mid-October.

Although fiscal and credit measures have been having an important influence in restricting civilian demands for finished goods, consumption of materials has continued at very high rates. With the materials supply situation tightening further as military demands increase, direct restrictions on the use of various important materials have recently been ordered by the National Production Authority. This will result in a reduced flow of finished durable goods to consumers and under these circumstances consumer demand will need to be curbed to prevent bidding up of prices. Selective credit restrictions will be useful for this purpose and also for the broader purpose of limiting the supply of money available for the purchase of all types of goods and services.

Curtailment ordered in use of various critical materials for civilian consumption as a whole is substantial. Civilian use of nickel in the first quarter of 1951 has been ordered cut 35 percent below average consumption in the first half of 1950; civilian use of aluminum has been cut 20 to 35 percent; zinc, 20 percent; and copper, 15 to 20 percent. It may be noted that these reductions are figured on actual consumption during the first half of 1950 as a base period. In most cases, consumption of materials has increased substantially since that time, so that the cut-backs from current levels are considerably sharper than indicated by the above percentages. As yet, no similar restriction has been placed upon civilian use of steel, but in the regulations providing for military priorities, percentages ranging up to 25 of the output of some steel products are reserved for direct defense orders.

In addition, steps are being taken to assure the allocation of steel and other materials to special programs of capital expansion deemed vital to the defense effort. In this connection, substantial tonnages of steel, particularly of plates, have already been scheduled for the production of freight cars and lake ore carriers. Action to assure materials for expansion programs in other defense-supporting industries are under consideration.

The underlying forces in the current economic situation are continuing to create strong inflationary pressures, which must be curbed because inflation has such disastrous effects. One of the most serious consequences of inflationary development is to misdirect the utilization of resources. Another is to greatly increase the dollar cost of the entire defense effort. Yet another is to distribute unfairly the economic sacrifices arising out of the national security program and to undermine morale.

A broad general fiscal and monetary program is of critical importance in helping to bring demand into line with available supplies, and thereby hold down inflationary pressures while facilitating the defense program. Strict controls on consumer and home mortgage credit, such as are provided by regulations W and X in their present form, are an integral part of this general program, and will be essential in the period immediately ahead. We believe that the restrictive terms which have been set are no more restrictive than is called for by the national defense program and the current and prospective economic situation. The most recent developments in Korea have emphasized the necessity for increasing our defensive strength quickly and preventing disruptive inflationary developments.

The CHAIRMAN. Mr. McCabe, you say in your statement that there are going to be large numbers of war workers moved, and the war industries are going to be decentralized, and so forth. Have you given any thought to what effect it might have on the poorer type of automobile purchaser when that happens? In other words, have you given any thought to the necessity of maybe raising this repayment limit in regulation W to 18 months, or giving a longer repayment period than 15 months in cases where by certificate a man actually shows he has to have a car?

Mr. MCCABE. We have given consideration, Senator Maybank——

The CHAIRMAN. I mean for war work, not to buy a pleasure car.

Mr. MCCABE. We have given consideration to all the suggestions which have been made. The one of giving a certificate of necessity is very difficult administratively. There have been a number of suggestions. One suggestion that was made recently was that we exempt all of the prewar model automobiles from the regulation.

The CHAIRMAN. You mean World War II?

Mr. MCCABE. Yes. The argument there was that since the working man in the main buys a second-hand car and that, if they were exempted he could make any terms that he saw fit with his dealer.

Now, from a practical standpoint, I am afraid there would not be too much of a benefit in such an exemption. The finance comapnies and the dealers in the past have insisted on fairly short maturities on prewar cars.

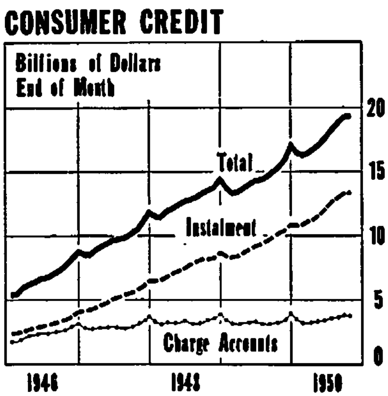
Senator ROBERTSON. Did the price of used cars go up after the Korean war started?

Mr. MCCABE. I have a chart here (chart No. 9, p. 94), that will show you, sir.

Senator ROBERTSON. Well, just give us what the chart shows.

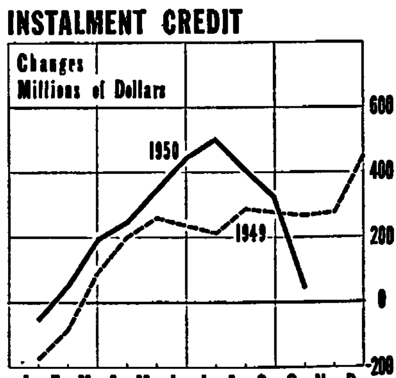
(The charts referred to follow:)

CHART No. 1



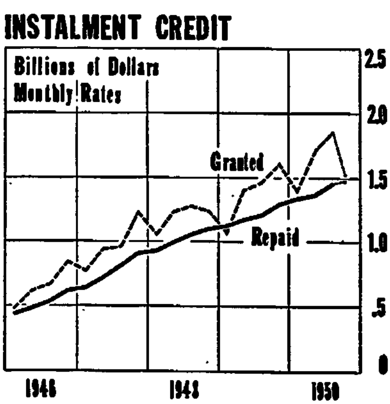
Federal Reserve estimates of outstandings at the end of the month; included in total but not otherwise shown are single payment loans and service credit. Through October.

CHART No. 2



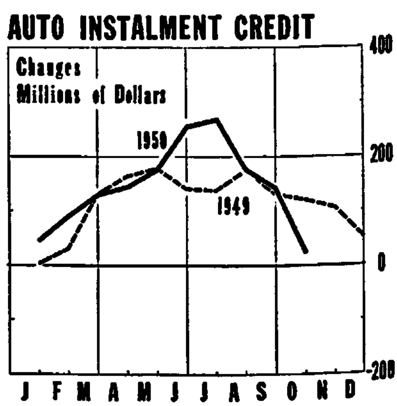
Changes in installment credit outstanding from month to month derived from Federal Reserve estimates of total installment credit outstanding. Through October.

CHART No. 3



Federal Reserve quarterly totals at monthly rates of installment credit extensions and repayments during period through the third quarter 1950; dots shows data for October.

CHART No. 4



Changes in total automobile installment credit outstanding from month to month, based on Federal Reserve estimates of installment sale credit and loans. Through October.

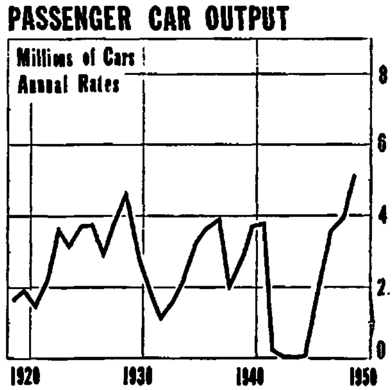
CHART NO. 5

MONTHLY PAYMENTS
One-third Down

Car Price (Del.)	Months to Pay 15	21	24
$1800	$90	68	61
2300	117	88	79
2800	142	106	95

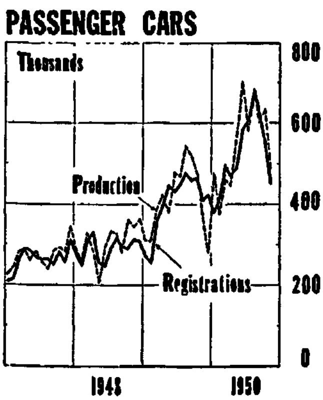
Federal Reserve computations of average monthly payments required for installment purchases of new passenger cars; allowance is made for equipment, finance charges, and estimated average insurance charges.

CHART NO. 6



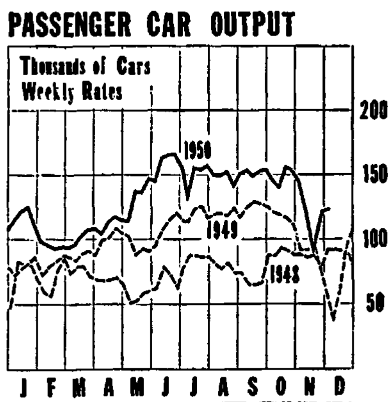
Federal Reserve annual index based on factory sales data compiled by Department of Commerce through 1939 and by Automobile Manufacturers Association for subsequent years; the dot for 1950 represents the annual rate for the first 10 months.

CHART NO. 7



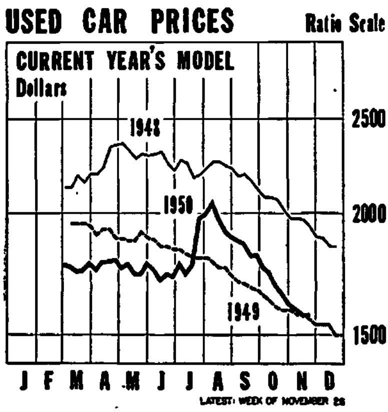
Production: Automobile Manufacturers Association monthly figures of factory sales from plants in the United States to domestic distributors. Through October; November estimated by Federal Reserve. Registrations: R. L. Polk & Co. monthly figures of new passenger car registrations. Through October; November estimated by Federal Reserve on basis of Polk figures for leading cities.

CHART NO. 8



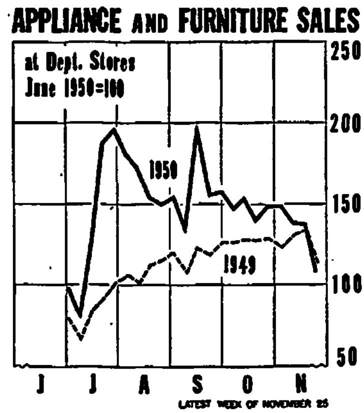
Automotive News weekly production figures; all weeks including major holidays adjusted by Federal Reserve to allow for holidays. Through December 5.

CHART No. 9



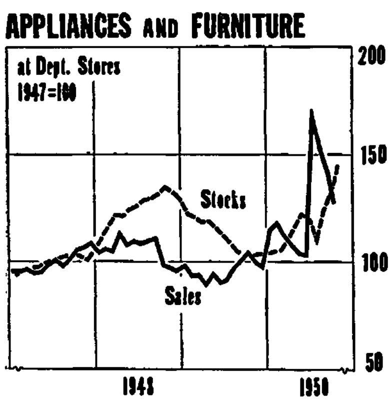
Weekly compilations of advertised offerings of Fords, Chevrolets, and Plymouths in Sunday newspapers in 18 cities. Through November 26.

CHART No. 10



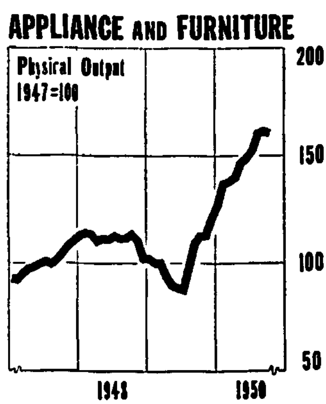
Federal Reserve weekly indexes, June 1950 =100, of sales at department stores of furniture, including mattresses and springs, domestic floor coverings, major appliances, radios, phonographs, and television sets. Through November 25.

CHART No. 11



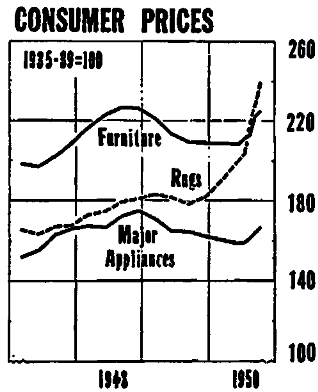
Federal Reserve seasonally adjusted monthly indexes of sales and stocks of items listed above. Through October.

CHART No. 12



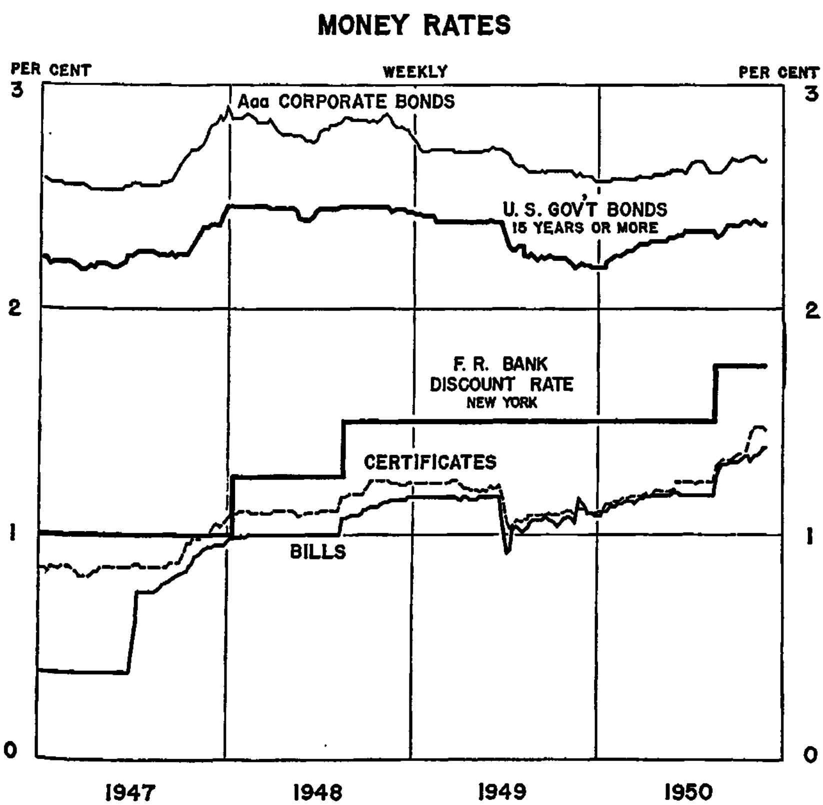
Federal Reserve seasonally adjusted monthly index, 1947=100, including radios, television sets, refrigerators, washing machines, cooking stoves, furniture, including mattresses and springs, and wool carpets and rugs. Through October.

CHART NO. 13



Bureau of Labor Statistics indexes for furniture, rugs, and major household appliances; data are for March, June, September, and December through June 1950 and monthly thereafter through October.

CHART NO. 14



Representative PATMAN. Where are the installment purchases shown on these charts, the amounts? In other words, I am trying to separate installment purchases of automobiles from durable goods generally.

Mr. YOUNG. Such a chart is not in this group.

Representative PATMAN. Do you not think that is important?

The CHAIRMAN. Can you produce that?

Mr. YOUNG. You mean the proportion——

Representative PATMAN. Not proportion, the amounts, and of course with the amounts stated we could determine the proportion. We are told here that there is a certain amount of increase in installment purchases of durable goods. The important part we are considering, is insofar as it relates to automobile purchases, and that information I think would be very material.

Mr. YOUNG. This chart here, sir (chart No. 4, p. 92), on auto installment credit, may be what you have in mind. It is the changes in automobile credit outstanding, which is the fourth chart, sir, but it does not give the figures on cash buying.

Senator ROBERTSON. I doubt very much if the picture on automobiles has changed as radically as some other types of durable goods, because one of the biggest dealers in Virginia told me in October that for years his average time had been 18 months, that they did not feel it was safe to go 24 months like a few people did, that they found they could do all the business they wanted in 18 months, and felt it was safer on that basis than on a longer time.

Representative PATMAN. I do not understand that fourth chart there, Auto Installment Credit. It says, "Changes, millions of dollars." It has 1950 before 1949.

Senator ROBERTSON. Will the gentleman from Texas be willing to have him answer my question first?

Representative PATMAN. Certainly. Pardon me, Senator.

Mr. McCABE. Could I get your question?

Senator ROBERTSON. I want you to give me two figures. First, how much the price of used cars had advanced after the Korean War started, and second, how much they came down after regulation W, as amended, was put into effect.

Mr. McCABE. In the statement I think you got the specific figures for a 1949 car and on the chart here (chart No. 9, p. 94), you will see that beginning in August, the average price for a 1950 car, Senator Robertson, was at this point here, about $2,000, I would say, and then in September, it was down, as shown in the chart. In November it was down further to about $1,600.

Senator ROBERTSON. Would you translate that for the record into specific figures. Question 1, How much did the average price of used cars quickly advance following the commencement of fighting in Korea? I have heard that when the Korean War started the price of used cars went up on the ground that you could not get many cars, and therefore they were going to be worth more.

Mr. McCABE. About $225 for a 1949 car.

Senator ROBERTSON. That is what I previously heard. Then how much, after regulation W was imposed and it became apparent that there would still be a reasonable number of cars, used and new, available for the market, how much did it come down again?

Senator TOBEY. $350. It is on page 8 of the statement.

Mr. McCABE. That figure represents the total decline from the August peak to the end of November. The decline after regulation W was imposed on September 18 to the end of November was $225 and after the amendment of regulation W on October 16 to the end of November was $150.

Senator ROBERTSON. On the basis of the war they went up $200, the same car jumped $200, and then under the impact of regulation W, apparently, they lost all of that gain, plus $150.

Now, I was not here yesterday, but I was informed that Mr. Walter Reuther ridiculed the effect of a curb on consumer credit on the ground that consumer credit was a very small proportion of the total purchasing engaged in by the American people.

Did you read some 10 days ago about a gas pipeline blowing up in Culpeper County?

Mr. McCABE. Yes, sir.

Senator ROBERTSON. You probably know that these gas lines are built to carry a normal pressure of not exceeding 500 pounds per square inch, but engineers building gas lines, like bridge engineers, always want a wide margin of safety, because when people become dependent for heat cooking on gas they do not want to be cut off by a failure in the pipeline. They decided to test this pipeline up to 800 pounds. Well, it held at 700 pounds. It held at 750 pounds. It held at 799 pounds, but it blew up at 800 pounds. Now, that last pound was only one eight-hundredth of the whole pressure, but that is when it blew up.

I will not elaborate on that point.

Senator TOBEY. What is the blowing-up point of a Senator?

Senator ROBERTSON. After 17 years, I would say it is pretty high.

Representative PATMAN. Have you finished, Senator?

Senator ROBERTSON. I have not finished, but I do not want to monopolize it.

Representative PATMAN. Oh, go ahead.

Senator ROBERTSON. I took the liberty, believing that we have a serious inflation threat, in setting a few figures in the record from memory, on Wednesday. I understand this morning a witness says he can refute all of them. I just want to get your opinion about this. When the buying spree started after the war in Korea commenced, at a time when the producing income of this Nation was at an all-time high, did purchasers also cash E bonds in excess of the purchases of new ones, and at the same time draw down their savings accounts?

Mr. McCABE. Yes, sir.

Senator ROBERTSON. During June and July, how much were savings accounts drawn down?

Mr. YOUNG. During July and August, savings accounts at banks together with building and loan accounts declined between 600 and 700 million dollars.

Senator ROBERTSON. What figure did you give?

Mr. YOUNG. $600,000,000 to $700,000,000.

Senator ROBERTSON. I think $700,000,000 would be the more realistic figure. That trend was fortunately stopped, I believe, in October, or was it in September that the draw-down of savings was stopped? The Board advised me that the draw-down of savings was stopped.

Mr. YOUNG. That has been in recent weeks, sir.

Senator ROBERTSON. Now, is the redeeming of E bonds still exceeding the sale of E bonds?

Mr. YOUNG. Yes, sir; I believe so.

Senator ROBERTSON. Is it true that has been running $200,000,000 or $300,000,000 a month?

Mr. MCCABE. Yes, sir; total redemptions have been running over $300,000,000 a month, but redemptions in excess of sales have only been running on an average of about $60,000,000 a month.

Senator ROBERTSON. How much has consumer credit been increasing, at what rate since the war in Korea started?

Mr. YOUNG. It is shown on this chart, sir (chart No. 1, p. 92).

Senator ROBERTSON. Is the figure $500,000,000 a month?

Mr. YOUNG. Installment credit was up about $500,000,000 in July, sir.

Senator ROBERTSON. And does the total now exceed $21,000,000,000?

Mr. MCCABE. Not of installment credit.

Senator ROBERTSON. I did not say installment credit. I said consumer credit.

Mr. YOUNG. A little under $20,000,000,000, sir. The figures have been recently adjusted back.

Senator ROBERTSON. They were figured at a little above $21,000,000,000.

Mr. MCCABE. That is right.

Senator ROBERTSON. But it has been adjusted back?

Mr. MCCABE. That is right, sir.

Senator ROBERTSON. And it is now around $20,000,000,000?

Mr. YOUNG. That is right.

Senator ROBERTSON. Well you have told me that mortage credit had gotten up to $40,000,000,000. Has that been adjusted back, too?

Mr. YOUNG. No, sir; at the end of September it was even higher than that, perhaps between 42 and 42.5 billion dollars.

Senator ROBERTSON. You told me some weeks ago that bank credit, since the war started, had increased by, as I recall, $2,000,000,000, but the figure this morning was over $5,000,000,000.

Mr. YOUNG. That is $5,700,000,000 from the end of June to the 25th of October.

Senator ROBERTSON. And that, you say, is an unprecedented advance?

Mr. YOUNG. Yes, sir.

Senator ROBERTSON. Is it true that bank credit since the end of World War II has increased over $18,000,000,000?

Mr. MCCABE. From the end of 1945 to the end of November 1950 it was $25,000,000,000. From the end of 1947 to the end of November this year, it was approximately 13.5 billion dollars.

Senator ROBERTSON. Is it true we now have about three times as much money in circulation as we did before World War II?

Mr. YOUNG. Yes, sir.

Senator ROBERTSON. Is it true that in volume production has increased about 67 percent, not talking about money value, but in volume?

Mr. YOUNG. Approximately; yes, sir.

Senator ROBERTSON. Then when you make allowance for what has gone into savings, you have had more than $2 of new money going into the market place for each one unit of production.

Mr. YOUNG. Yes.

Senator ROBERTSON. Isn't that in simple terms the essence of inflation?

Mr. YOUNG. That is correct, sir.

Senator ROBERTSON. The money supply has exceeded the supply of goods, and therefore you pay more money for the same goods because of that competition.

I just felt, Mr. Chairman, that since there is some question involved in these hearings as to whether these regulations were wholly capricious and unnecessary and too drastic, and all, that the record that we make should show some general picture of inflation, because you can't ignore any major factor of this situation if you are going to control the whole problem.

Representative PATMAN. Mr. Chairman, Mr. McCabe doesn't have the information which I think is very important that we have: separating automobile paper from durable goods.

I want to interrogate Mr. McCabe along several lines, and I don't have time before the House meets, or before the Senate meets. I wondered if it would be asking too much to ask if Mr. McCabe can come back for cross-examination?

The CHAIRMAN. I would ask Mr. McCabe.

Mr. McCABE. Congressman Patman, I would like to, but I am scheduled to make three speeches in the South. I plan to be in Birmingham, Ala., on Monday, and in Chicago on Thursday. The first day I plan to be back here will be Friday.

Representative PATMAN. Don't you think this is more important than speech making, right now, Mr. McCabe?

Mr. McCABE. I am at the command of this committee, sir.

Representative PATMAN. What about tomorrow? Saturday?

I don't know what the committee members would say about tomorrow.

Senator CAPEHART. It suits me.

The CHAIRMAN. It suits me, all right, because I would like to suit Mr. McCabe's convenience.

Congressman Brown could hold the meeting. I did commit myself to be at the Appropriations Committee meeting tomorrow.

Senator ROBERTSON. It would be perfectly agreeable to us for the House members to meet tomorrow, because they want to make a record.

The CHAIRMAN. Why don't you do this—I'm just thinking out loud—we have a conference here at 3 o'clock today regarding which I talked with Congressman Spence. We could ask Congressman Spence to put that off if it is agreeable to the committee, and meet with Mr. McCabe this afternoon.

Representative PATMAN. That would be satisfactory with me.

I don't mean to say that speech making is not important, Mr. McCabe, and I know you make good speeches, but I think this is more important right now.

Mr. McCABE. Congressman, my only embarrassment there would be in Alabama, where the group to which I am speaking will have its annual meeting Tuesday night. I accepted the invitation some 3 months ago. It would be rather embarrassing to turn that down at this time.

Representative PATMAN. I am perfectly willing to do anything that would meet with your approval. This afternoon will be satisfactory with me; tonight, tomorrow, or any other time.

The CHAIRMAN. Suppose we meet here at 3 o'clock this afternoon, and I want to say for the record that I have talked to Congressman Brown. I have to be out of the city Monday, and Congresman Brown says he will hold hearings here at 10:30 Monday morning.

Representative PATMAN. The National Used Car Dealers, I think, will be on Monday morning at 10:30.

The CHAIRMAN. We will meet at 3 o'clock this afternoon, in this room.

(Whereupon, at 11:45 a. m., the hearing was recessed, to reconvene at 3 p. m., of the same day, in the same room.)

AFTERNOON SESSION

(Whereupon, at 3 p. m., the hearing was resumed, pursuant to the taking of the luncheon recess.)

The CHAIRMAN. The meeting will come to order.

Senator CAPEHART. Mr. McCabe, do you think all price controls and all wage controls will be invoked in the next 30, 60, or 90 days?

Mr. McCABE. I do not know, sir. What we are trying to do is carry out what we think is the will of Congress, on the indirect controls, make them effective, not make them stringent to the point that it would destroy a segment of the economy, because I think it is wrong to do that.

Senator CAPEHART. Do you think we can control the inflation and rising prices in the face of the Korean War by so-called selective controls, and that is what regulation W is?

Mr. McCABE. The key, Senator Capehart, to the question that you asked, is the amount of the defense budget. I certainly felt until the last few days, and felt strongly that we could fight it out along the lines we were traveling, provided Congress at this sesssion enacted the necessary legislation to put us on a pay-as-you-go basis, because I think a sound fiscal program is fundamental, and comes first. The key is the size of the defense budget, and until that is determined, there is nothing more that we can do except we must carry out what I think was expressed very clearly to us by the Congress in the reports on the Defense Act.

The CHAIRMAN. That is our wish.

Senator CAPEHART. If we are going to spend $60,000,000,000 for national defense, and add to it another $20,000,000,000 for other governmental expenditures, that is $80,000,000,000; to be on a pay-as-you-go basis means you are going to have to collect twice as much in taxes as you are collecting at the moment.

Mr. McCABE. That is right.

Senator CAPEHART. Now, that possibly cannot be done, so I think you are right when you say that much depends—but you have no idea at the moment as to whether we will or will not go into all-out controls, within 10 days or 90 days?

Mr. McCABE. No, sir, I have not been told.

Senator CAPEHART. Has it been discussed with the Federal Reserve Board?

Mr. McCabe. We serve on the Symington working committee, but there that specific question has not certainly reached any determination in that committee.

Senator Capehart. In other words, if we are going on all-out controls, then I think we are debating and arguing today about something that amounts to very little, because if we go all out on price control and wage control, allocations, and rationing and OPA, and so forth, we know, of course, that what we are talking about today simply fades away in the wind.

Now, it seems to me as though the head of the Government, and the Government itself, is going to have to make up its mind whether or not it is going on all-out controls before you can possibly make up your mind whether it is 15 or 18 months. I cannot see that it makes much difference whether it is 15 or 18 months, but you have the facts and figures and ought to know. I know you are sincere and conscientious in wanting to control inflation, if you possibly can, by controlling consumer credit, mortgage credit, and bank credit; and I have been trying to do it. It seems to me that your decision in this matter will almost have to wait or will rest with the decision as to whether or not we are going to have complete, hundred-percent war mobilization and all-out controls in this country or whether we are not. Is that not a fair analysis of it from your standpoint?

Mr. McCabe. I think you have made a very fair analysis. I would like to say, however, that even if we move into a harness of direct controls we will still need a strong program of fiscal and monetary measures, because these strike at the source of the inflationary problem and are a necessary backstop for direct controls. Direct controls suppress and defer spending of excess buying power; they do not deal with the root causes of excess buying power.

Senator Capehart. I gather it is something that cannot be decided in a week, 10 days, or even 2 weeks?

Mr. McCabe. No; and, even if the Government decided to go on all-out control, the organization job alone—to get that organization into being and in operation—would be a considerable task.

The Chairman. I have been talking to Congressman Brown and Congressman Patman, and we have been talking about the Commerce Department and Mr. Harrison, of the National Production Authority, so, if it is agreeable, on Tuesday we will have Mr. Sawyer and Mr. Harrison, and on Wednesday we will send for Mr. Symington.

I only want to ask Mr. McCabe this. Since Senator Capehart asked him about all-out controls, I would like to ask if the Federal Reserve Board has any idea of putting in any additional new controls, selective controls, insofar as merchants are concerned, or stores, or what have you, before you get any other control. I want to know what you own thinking is. You did a good job by getting to work promptly. We might not agree on 15 months as the proper limit at this time for installment payments, but at least you followed the intent of Congress and went to work the next day after the Defense Production Act of 1950 became law, and I appreciate it.

Mr. McCabe. It is what we thought was the intention.

The Chairman. We disagreed on whether the maximum time for repayment of automobile installment loans should be 15 or 18 months, but that is an honest difference of opinion between our group here and your Board in trying to stop inflation. Inflation can ruin this country quicker than anything else, and we have already got it.

Senator CAPEHART. I would like to say this. Unless we are going to have all-out controls within a short period of time, I would like to recommend on automobile credit that you do give them 18 months. That is merely a recommendation. I think, if we are not going to have all-out controls, that is possibly a more sound approach to the situation at the moment than maybe the 15 months. My experience in credits—you have a different problem here in that you want to control inflation, but ordinarily credit is based on ability to pay rather than anything else, but here you have an entirely different problem, and that is to control inflation, and I do not believe the difference between 15 and 18 months is significant.

The CHAIRMAN. What about these new controls now?

Mr. MCCABE. Could I just comment a second on Senator Capehart's comment, and then I will come right back to that?

The big question, Senator Capehart, is the supply of automobiles versus the demand for automobiles. If the supply of automobiles is going to come down constantly, and at the same time we relax regulation W and increase the demand for automobiles, then the country could easily get back where it was last summer, with the people bidding up the prices of a decreasing available supply. That is the big question which we have to face.

I should also like to say, Senator, that the installment credit terms now required for the purchase of an automobile are not as restrictive as these required during World War II. Although automobile prices are now higher than they were in that period, their rise has not kept pace with the increase in consumer incomes. Between 1941 and the summer of 1950 the cost of a popular-priced automobile increased by about 82 percent, while the average weekly earnings of industrial workers increased by about 94 percent. As a percentage of weekly take-home pay, monthly payments on a low-priced car are slightly lower under the present terms of regulation W than they were during World War II. We estimate the present regulation to be but little more restrictive than the 1941 regulation, which required terms of one-third down and 18 months to pay.

Senator CAPEHART. I see that, and I think the thing that possibly many people dislike, and possibly this committee dislikes—maybe not as a whole, but as individuals—is the fact that here we have a system to control inflation, and it is certainly doing it, because according to the testimony of those in the business it has reduced their sales, but it does it at the expense of the people with the least purchasing power, on the small salaries, which is the thing we dislike about it. We want to control inflation, but maybe there is some better method of distribution so the poor fellow that only makes $200 or $300 a month can still buy an automobile, and is not taken completely out of the market. That is, I think, the thing that we as individuals do not like.

Mr. MCCABE. I would like to say for Congressman Brown and Senator Capehart's benefit that we get figures from the Polk service on new passenger-car registrations. We also get confidential reports from the automobile manufacturers as to their dealers' sales and inventories. I think it is rather interesting that the available figures indicate that sales of new passenger cars for 30 cities during the month of November 1950, as compared with November 1949, were up 13 percent. I should like to introduce into the record a table showing these figures on the basis of the over-all sales of new cars in these particular cities during the month of November.

(The table referred to follows:)

New passenger-car registrations—Percentage increase from November 1949 to November 1950

Boston	229	Des Moines	0
Toledo	107	Washington	0
Milwaukee	56	Chicago	0
New York City	52	Fargo	0
Charlotte	41	Philadelphia	−1
Denver	33	Omaha	−3
Richmond	30	Seattle	−3
Pittsburgh	25	Kansas City	−5
Cleveland	23	Rochester	−8
Portland, Ore	19	Dallas	−10
Buffalo	18	Louisville	−11
Detroit	18	Columbus	−13
Los Angeles	17	Indianapolis	−14
Baltimore	15	Salt Lake City	−14
Memphis	13	Houston	−18
Dayton	9	St. Louis	−27
Atlanta	7	New Orleans	−31
Cincinnati	7	Miami	−41
Minneapolis	6		
St. Paul	3	Average, 38 cities	13

NOTE.—Based on R. L. Polk & Co. reports covering whole month of November for 21 cities and 7 to 28 days for 17 cities.

I do not feel that new-car dealers have suffered very much. True, experience was spotty. You can see here that at one extreme Boston was up 229 percent, and at the other extreme Miami was down 41 percent. Of course, sales experience changes from month to month.

You can also see from this chart (chart No. 7, p. 93), showing passenger-car output compared with new-car regulations, that, relatively speaking, the industry as a whole is in a pretty healthy condition.

Senator CAPEHART. Let me state just the concrete experience I had, which sums up my feelings and, I think, sums up the feelings of all of us.

I am in the market for a new car. I will buy a new car, and I will pay cash for it. One of the young fellows working for me has got a very, very old car. He was going to buy one; he did not buy it. He came to me the other day and said, "Now I cannot do it because I cannot make the monthly payments." Therefore he has to continue to drive his old car, and he very badly needs one.

Now, that I think is the crux of my feeling in it. Is there some way of working out a plan where we can still control inflation and yet by some way afford the fellow with limited means and income an opportunity to buy a new automobile, either new or used?

Representative BROWN. I think you have reached the point when you provide the one-third down payment. I think that is the controlling part of your regulation, and I think we will all agree with that.

The CHAIRMAN. What about my question?

Senator CAPEHART. They trade in their old cars to make up the one-third down.

The CHAIRMAN. I look at it this way: I worked on the rent-control bill yesterday, to stop inflation. I believe that was the long-range thing to do because the situation in this country has changed so much since June, but so far as control is concerned the automobile people are controlled and the real-estate people are controlled, but no one else is being controlled, and these other fellows are making more money from other things than they ever dreamed of.

I appreciate what the Government did yesterday. I don't know how far they are going to get with it, but what you say about strategic materials is correct. They ought to be more controlled.

I was in a navy yard a while ago, and they laid off several hundred people because they didn't have materials.

Mr. McCabe. Now, to answer your first question, Senator Maybank, about additional controls. We have gone quite thoroughly into the question of charge-accounts credit; we have gone into the question of single-payment loans; we have gone into the question of the possible control of sale credit on jewelry, fur coats, and many other items. I assume that is what you had in mind.

The Chairman. I certainly did. I remember the debate in the Senate about 8 years ago when Senator Overton and someone else got onto the subject of fur coats, and it was the consensus of opinion at that time that the working girl should be able to buy a fur coat.

Mr. McCabe. Note this chart (chart No. 1, p. 92) showing the trend of charge-account credit. Our first consideration is its volume. You will see that is in the neighborhood of $4,000,000,000, as compared with a total for installment credit of over $13,000,000,000 and with a total for all consumer credit of nearly $20,000,000,000. The line runs fairly level on charge-account credit. We are watching that closely, because if there should be a strong indication that the people are shifting from installment credit to charge-account credit we would certainly want to deal with the problem.

At this particular stage—that is, as of today—we haven't felt disposed to touch charge-account credit, because the average charge account is paid off in a period of about 60 days. Charge-account credit isn't long-term credit.

We have also gone into the question of single-payment loans rather exhaustively, and again here we have felt that the problem was not ripe for action.

Concerning the question of jewelry, we have studied the total volume of credit outstanding and the terms of payment. We find that the volume is not so significant as compared with other types of installment credit and that in the main jewelry is paid for in a maximum of 12 months.

Now take fur coats. Credit is extended here for relatively short periods of time; that is, for the woman who buys a fur coat now, the requirement is that she has to pay for it before the next season starts.

The Chairman. Who did that—the industry itself?

Mr. McCabe. The industry itself.

What we have to weigh is the volume and the trend of the credit in the particular area before we determine whether it is practical to establish a control. In the case of charge accounts the administrative problem of control would be a very difficult one because of the vast number of people to be covered.

It is difficult to administer in a department store because it applies only to the items that are listed. The stores have to separate out those items that are on our list from the items that are not covered.

In summary, what I am saying is that we have all of the various credit areas under constant study and that we won't hesitate to touch any area if we feel that it is ballooning because of strong inflationary pressures.

(The following was later submitted for the record:)

ADDITIONAL STATEMENT OF THE FEDERAL RESERVE BOARD AS TO THE NECESSITY FOR THE APPLICATION OF REGULATION W TO USED CARS

It has been suggested that used cars should not be subjected to the requirements of regulation W because they do not use materials and manpower and consequently controlling them makes no contribution to the production of military goods. A number of points should be considered in connection with this suggestion.

1. Expansion of credit for the purchase of used cars is inflationary. It contributes to high prices for used cars. Furthermore as the additional purchasing power is spent it contributes to increased prices for other goods as well.

2. High prices for used cars contribute to great demand for new cars in two ways. First, the higher the prices allowed on used cars traded in for new cars, the less effective are the terms of regulation W as applied to new cars. Second, inflation of the prices of used cars would increase the demand for new cars since the chief reason people buy used cars is that they are cheaper.

3. If used cars were not subject to regulation W or if more lenient terms were applied to used cars, widespread evasion of the regulation as applied to new cars would occur. Cars which were actually new would appear in the market as ostensibly used cars.

4. High prices for used cars are harmful to the lower income groups who customarily buy them and to workers who must have transportation.

The CHAIRMAN. Now, we have been very unfair to Congressman Patman in asking questions. He is the one who really wanted to ask some questions, so, without objection, I will turn the meeting over to Congressman Patman.

Representative PATMAN. Mr. McCabe, did you get up the table requested on the ratio between purchases of automobiles and other durable goods?

Mr. McCABE. During the lunch period we checked those figures. Total sales of durables other than automobiles amounted to 15.9 billion dollars in 1949. Sales of automobiles—that is, new automobiles—amounted to 9.9 billion dollars. Those were the most convenient figures for us to get.

Representative PATMAN. You do not include used cars in that?

Mr. McCABE. Used cars amounted to 5.2 billion dollars.

Representative PATMAN. That would mean about $15,000,000,000 just for cars, alone?

Mr. McCABE. For new and used cars, but you have a complicated factor there, Congressman Patman, because the used cars in many instances, you see, are traded in on the new cars.

Representative PATMAN. I know that.

Mr. McCABE. As to the breakdown of the figures, it is 15.9 billion dollars for durables other than automobiles, 9.9 billion dollars for new automobiles, and 5.2 billion dollars for used.

Representative PATMAN. That would make $30,000,000,000.

Mr. McCABE. $31,000,000,000.

Representative PATMAN. I thought all durable goods amounted to less than $20,000,000,000.

Mr. McCABE. Are you talking about credit rather than sales?

Representative PATMAN. Yes; I am talking about credit. That is all we are dealing with, you know.

Mr. McCABE. I thought you wanted sales volume.

Representative PATMAN. No; we are interested only in credit.

Senator CAPEHART. Can't you just subtract the one-third down?

Representative PATMAN. I want you to give me comparable figures to the ones you have on consumer credit. That is mostly credit; isn't it?

Mr. McCABE. Yes.

Representative PATMAN. I want you to give me comparable figures concerning used, and new cars. In other words, the credit——

Mr. YOUNG. We don't have them separated between new and used cars.

Representative PATMAN. Well, do you have the total of new and used?

Mr. YOUNG. Total sales automobile credits outstanding is 5.579 billion dollars.

Representative PATMAN. That is new and used?

Mr. YOUNG. New and used together, directly attributable to automobile purchases.

The CHAIRMAN. $5,000,000,000.

Mr. YOUNG. Out of a total of 13.4 billion dollars of total installment credit.

Representative PATMAN. That is in addition to the $13,000,000,000; isn't it?

Mr. YOUNG. No; it is part of the $13,000,000,000, that part outstanding against automobiles.

Representative PATMAN. You are talking about installments only?

Mr. YOUNG. Yes.

Representative PATMAN. All right; we will take installments only. Now, $5,000,000,000, how does that compare to the total retail sales in 1949? Those are 1949 figures, or 1950 figures you are giving me?

Mr. McCABE. The last figure I gave you was for 1949.

Representative PATMAN. What were the total sales of all kinds and types, say, in the year 1949?

Mr. YOUNG. Roughly, retail sales amounted in 1949 to $124,000,000,000.

Representative PATMAN. And you are dealing with about $5,000,000,000 out of $129,000,000,000. That is all sales, credit, and everything else.

Mr. YOUNG. We are in some confusion, I think, Mr. Congressman. You want to compare against sales the total amount of consumers credit granted. Now, the total amount of sales of automobiles amounted to about $10,000,000,000.

Representative PATMAN. Is that new cars?

Mr. YOUNG. That is new cars.

Representative PATMAN. And how much used?

Mr. YOUNG. Used cars about $5,000,000,000.

Representative PATMAN. About $15,000,000,000.

So you are dealing with about one-third of the purchase price of the two, new and used, in your credit regulations. That is right; isn't it $5,000,000,000? That is what you have now. That is correct; isn't it?

Mr. McCABE. Well, I think there that isn't quite the right conclusion, because you would have to determine what proportion of the $15,000,000,000 of new and used cars sold was sold on the installment plan. You want to get the credit.

Representative PATMAN. That is right.

Mr. McCABE. He gave you the outstanding amount of credit; that is, the cumulative.

Representative PATMAN. I am not interested in going into that further. I just wanted to show that it amounts to so little in our total transactions per year. In fact, we have about 2 trillion dollars of transactions a year; don't we, Mr. McCabe?

Mr. McCABE. I couldn't answer that. Maybe an economist could answer that.

Representative PATMAN. This is a very small amount compared to our total transactions in the course of a year. I don't mean just merchandise, I mean all transactions would aggregate about 2 trillion dollars a year. Interest rates can be inflationary, too; can't they, Mr. McCabe?

Mr. McCABE. Oh, yes.

Representative PATMAN. If you increase the price of an automobile, that is inflationary. If you increase the price of interest, that is inflationary, too; isn't it?

Mr. McCABE. If interest goes up?

Representative PATMAN. Yes.

Mr. McCABE. Well, if interest goes up, it should be non-inflationary.

Representative PATMAN. It should be noninflationary; if interest goes up?

Mr. McCABE. Yes; that is, if you make money dear to the man who borrows it, that should be noninflationary.

Representative PATMAN. You mean artificially or naturally dear? As it is now, money is plentiful. You said this morning you had three times as much money as we normally have. Well, under the law of supply and demand, if that operated fairly, interest rates would go down; wouldn't they?

Mr. McCABE. I should think it would be the amount that you had available for lending. As a matter of fact, the level of interest rates reflecting the large supply of funds, is low and has been for a long time.

Representative PATMAN. I know, but there is more available for lending than ever before, so why don't the interest rates go down instead of going up? Isn't it a fact that the Board has arbitrarily fixed a policy that would compel an increase in interest rates?

Mr. McCABE. Well, Mr. Congressman the Board in its policy—I assume you are talking about the recent rise in the short-term rates. You have to remember that there are demand factors too.

Representative PATMAN. Short-term paper from three-eighths of 1 percent to about 1.75 percent, which costs the people about $300,000,000 and $400,000,000 a year extra?

Mr. McCABE. That is right. Short-term rates have risen, but not quite as much as your figures indicate.

Representative PATMAN. The only reason that came about annually was because of the arbitrary action of the Federal Reserve Board; wasn't it?

Mr. McCabe. Well, I would not say arbitrary action. There are market demand factors to be taken into account.

Representative Patman. Well, deliberate action.

Mr. McCabe. You have had the laws of supply and demand working.

Representative Patman. Do you really insist on that, Mr. McCabe; that the law of supply and demand is working on that?

Mr. McCabe. Yes; because I think in the market place for money, you certainly have the law of supply and demand operating.

Representative Patman. I thought the Federal Reserve Board was requiring that you, in the open-market purchases, could control that situation; could you not, and compel an increase in interest rates?

Mr. McCabe. What you had there, Congressman, was a situation where banks were selling their Governments to the Federal Reserve.

Representative Patman. Yes.

Mr. McCabe. As for interest rates, we were more reluctant buyers of those securities. That resulted in short-term interest rates going up.

Representative Patman. But, Mr. McCabe, you wouldn't seriously contend that you didn't deliberately increase those interest rates by an action of the Federal Reserve Board; would you?

Mr. McCabe. Well, what I say is——

Representative Patman. Wouldn't you admit that you did deliberately increase them?

Mr. McCabe. Let me answer you this way, sir; I think the more reluctant a buyer of Government securities on the Open Market Committee is, the——

Representative Patman. The higher up the price would go.

Mr. McCabe. The higher short-term interest rates would go, the lower prices on short-term securities would go.

Representative Patman. And you were dealing with Government credit entirely in your open market transaction; weren't you?

Mr. McCabe. Yes; the law requires that we limit our open-market operations to Government securities.

Representative Patman. That is the only money; it is Government credit, and you were using Government credit to force up the interest rates, were you not?

Mr. McCabe. Our operations in the money market were part of our general anti-inflationary policy.

Representative Patman. You say, "anti-inflationary policy?"

Mr. McCabe. Yes.

Representative Patman. To increase the price of an automobile is inflationary, to increase the price of interest is not inflationary, is that right?

Mr. McCabe. Could I spell that out for you? I think I can make it clearer.

The more reluctant the open market committee is in buying short-term Government securities, the more there is a tendency for short-term rates to rise and prices to go down. Now, as rates went up, and prices went down, the banking system became more reluctant to sell their short-term securities to the Federal Reserve. For example, if a bank with a portfolio of Government securities wants to raise funds with which to make loans, it sells its securities indirectly to the System open market account with which to get the funds.

Now, if it has to sell those securities to the Federal Reserve at a loss, it becomes a more reluctant seller. That is the point I am making.

Representative PATMAN. Of course, Mr. McCabe, the Federal Reserve open policy committee has deliberately forced an increase in interest rates, justified on the theory that it is anti-inflationary, which I do not agree with.

Senator CAPEHART. Will the Congressman yield there just a moment?

Another reason you do that, is it not, is to maintain the Government bond, to require par value of Government bonds?

Representative PATMAN. It should not have anything to do with it.

Mr. McCABE. You are now getting into a very big question, Senator Capehart. We have a very sizable marketable public debt, and the Federal Reserve has a responsibility of maintaining orderly conditions in the Government bond market. That I assure you is a gigantic task. We must operate in such a way that the Treasury can readily do its refunding and that the public maintains its confidence in the Government securities market.

It is my own feeling that our job has been well done. Public confidence in the Government securities market has been maintained. I think also that our actions in the short-term market have had the desirable effect of restraining sales of Government securities to the Federal Reserve System.

Our figures show that there has been some increase in the System's portfolio. The question is how much larger that increase would have been if we had not moved to exert a restraining influence.

Representative PATMAN. I do not agree with Senator Capehart on that.

Now, on the long-term securities, you are trying to keep them above par, like the 1967–72, I believe.

Mr. McCABE. The longest are the 1967–72, at 2½ percent.

Representative PATMAN. And you have been keeping them above par? Those bank eligibles are about 103, something?

Mr. McCABE. Over 103, something.

Representative PATMAN. And the others are just above par, and you do not intend to let them go below par, do you, Mr. McCabe?

Mr. McCABE. I can only point to our record to date, sir.

Representative PATMAN. Yes, sir; and I know that your obligation, at least I feel like it is an obligation, because when the Ways and Means Committee considered the legislation to finance World War II, I think that was written into the law, not into the law necessarily, but in the hearings, that we never intended for people to suffer again like they did after World War I by being forced to sell their Government bonds at distress prices below par.

Mr. McCABE. You could not be critical of what we have done on that, could you, sir?

Representative PATMAN. No, it could not be. You have kept them above par, and I certainly hope you continue to do that. You will break faith with the American people who own those bonds if you permit them to go below par.

Mr. McCabe. We think our actions to date have reflected the intent of Congress, sir.

Representative Patman. Yes, sir. On inflation, I want to assure you, Mr. McCabe, that I am very much in favor of stopping inflation. You know my record during World War II was pretty good on price controls and things like that. I realize that our dollars could become worthless, and they can still become worthless. If they do become worthless, people will not work for worthless money, and it is possible we could even lose the war by reason of worthless money. We must keep that money stable.

But on this particular question, I just wonder if you have been dealing with the minor part of our economy at a time when you could deal with a major part more effectively.

In particular I refer to the reserve requirements of banks. You have not touched the reserve requirements of banks in your indirect operations, have you?

Mr. McCabe. That is right, sir.

Representative Patman. Is there any good reason why you would deal with the installment credit, in what I would consider to be a pretty drastic manner, and not deal with the reserve requirements in a way that could be direct as well as indirect and freeze more credit with one stroke of the pen than you could in a hundred years with automobile credit?

Mr. McCabe. I think you have asked a pretty pertinent question, sir. As I brought out in my statement this morning, of the increase in bank loans since the middle of the year, roughly half have been to finance consumer loans, including not only installment loans, but also home mortgage loans. We have acted in both of these fields, which account for roughly half of the increase in bank loans.

In that connection, I think you might be interested in a survey we recently made to determine what the recent increase in bank credit was for. I have here the results of this survey.

Representative Patman. Let me ask you specifically about these reserve requirements. Now, under the law you have a right to raise the reserve requirements up to a certain amount for three classes of banks. Is that correct or not—country banks, Reserve city banks, and central Reserve city banks?

Mr. McCabe. Demand deposits in central Reserve city, Reserve city and country banks, and in addition time deposits at all banks; that is, all member banks.

Representative Patman. Well, I recall in 1936 when the veterans of World War I were paid about a billion dollars, a little bit more, the Federal Reserve Board was very much alarmed and disturbed to the extent that they ordered that the reserve requirements be doubled, and they were doubled for the first time in history I believe that it was ever done, and that caused a pretty good recession and a deflation in 1937. You recall that, do you not?

Mr. McCabe. Yes, sir. I recall a recession, but there are differences of opinion as to what caused it.

Representative Patman. Now, then, at this time what are the reserve requirements of country banks?

Mr. McCabe. The reserve requirements of country banks are 12 percent.

Representative PATMAN. In other words, they can extend loans equal to about eight times as much as they have in money under their reserve system.

Mr. McCABE. The 12 percent we require to put up against their demand deposits.

Representative PATMAN. Now, you could increase them to 16 percent, could you not?

Mr. McCABE. Not the country banks. We can go up another two points.

Representative PATMAN. Another 2 percent. An one time you raised them to 16 percent.

Mr. McCABE. Congress gave us temporary authority, you will remember.

Representative PATMAN. But normally it is 14 percent.

Mr. McCABE. Fourteen percent is the limit of our statutory authority.

Representative PATMAN. Now, if you were to increase the reserve requirements from 12 to 14, how much idle credit would that freeze?

Mr. McCABE. If we increased them up to the maximum authority we now have which would be four more points in New York and Chicago——

Representative PATMAN. No; I am not talking about New York and Chicago. I am talking about country banks. If we increased the reserve requirements, if the Board did, from 12 percent to 14 percent, how much credit would that automatically freeze that the banks can now, under existing law, extend if they desire?

Mr. McCABE. Country member banks?

Mr. THOMAS. Reserves of country member banks would be increased by about half a billion dollars. I think that is the figure.

Representative PATMAN. $500,000,000?

Mr. THOMAS. $600,000,000 to be more exact.

Representative PATMAN. Now, under existing law, those banks can buy $600,000,000, say of Government bonds, and create the money on the books of the banks to buy them, which is the most inflationary dollar that you could put out, is it not? Is that not the most inflationary money we have, the money that is created by banks through the purchase of Government bonds?

Mr. McCABE. Not through the sale of Government bonds?

Representative PATMAN. Through the purchase of Government bonds?

Mr. McCABE. If you are talking about the purchase of Government bonds on a new issue of the Treasury, where the Treasury leaves the deposits with banks, that is one thing; but if the country banks purchase securities from the Federal Reserve, that tends to be noninflationary, because they are utilizing their funds.

Representative PATMAN. I am not talking about that, Mr. McCabe. I am talking about Treasury issues, if country banks buy $600,000,000 in Government bonds.

Mr. McCABE. On a new Treasury issue?

Representative PATMAN. That is right. That is highly inflationary, is it not?

Mr. McCABE. You see in that case a deposit would be created and then of course the Treasury would gradually draw down that deposit and pay it to somebody else who would deposit it in some other bank.

Representative PATMAN. But in the bank's system as a whole, that amounts to $600,000,000, does it not?

Mr. McCABE. If Government deficits are being financed through the banking system, it would be inflationary in character.

Representative PATMAN. Well, we are doing that right now, are we not?

Mr. McCABE. In the current situation, we do not have deficit financing.

Representative PATMAN. Mr. McCabe, I do not want to argue with you, but I do not see how you can object to answering this affirmatively, that it is highly inflationary for these banks to buy Government bonds in that way, and it is about the most inflationary money that we have today, is it not?

Mr. McCABE. No, I wouldn't say that. The Treasury, for some time, except on its refunding issues, has not sold securities directly to the banks.

Representative PATMAN. All right. This 12 percent, if you increase that to 14, that would destroy the ability of the country banks to issue $600,000,000 in additional credit. That is right, is it not?

Mr. McCABE. What the country banks would do in that case, Mr. Patman, if we announced tonight, for example, that we were increasing the reserve requirements by two points on the country banks, is this—in order to comply, they would either sell us $600,000,000 of Government securities, which they have in their portfolio, or——

Representative PATMAN. If they had already extended all the loans they could?

Mr. McCABE. That is what I was going to say, or take it out of their balances with correspondent banks, or call in some of their loans and meet part of it in that way.

Representative PATMAN. Now let us go to the central reserve city banks. What is the present reserve requirement there?

Mr. McCABE. It is 22 percent.

Representative PATMAN. And what is the maximum?

Mr. McCABE. Twenty-six.

Representative PATMAN. That is four points?

Mr. McCABE. Four points.

Representative PATMAN. Now, if you were to increase the reserve requirements four points, how much inflation would that prevent?

Mr. McCABE. Well, if we increased it four points they would have to put up—how much?

Representative PATMAN. Suppose they did not have to put up any, suppose they had not extended loans to amount to that four points?

Mr. McCABE. The chances are they would meet a large portion by selling Government bonds.

Representative PATMAN. Let us assume they have extended loans only to the present requirements, they had not extended loans up to the four additional points. How much is the difference in the present requirements and these four points that you could freeze? What is the difference there in money dollars, just like you gave it on the country banks?

Mr. THOMAS. Nearly a billion dollars.

Representative PATMAN. All right, now, then, let us see about the central banks.

Mr. THOMAS. These were the central reserve city banks.

Representative PATMAN. I am talking about the reserve city banks.

Mr. THOMAS. There would be only two points increase available at reserve city banks. That would remain an increase of another $600,000,000.

Representative PATMAN. All right, now, the central banks; what is the present reserve requirement there?

Mr. McCABE. On the central reserve, that is New York and Chicago, the present is 22 and the statutory authority is a maximum of 26.

Representative PATMAN. All right, suppose you made it 26. What is the difference in 22 and 26.

Mr. THOMAS. That is a billion dollars.

Representative PATMAN. That is just how many cities there; two?

Mr. McCABE. Two.

Representative PATMAN. Two cities. All right, there is $2,200,000,000 in potential inflationary credit that you have not touched, have you, Mr. McCabe?

Mr. McCABE. You say inflationary credit. You will find these New York and Chicago banks own over $12,000,000,000 of Governments. They could meet that increase in reserve requirements simply by——

Representative PATMAN. Selling the bonds to the Federal Reserve System?

Mr. McCABE. Selling part of the $12,000,000,000 of Governments to us. Of course, that would be restrictive because all banks dislike to give up liquid assets and, of course, their short term Governments are considered a very highly desirable liquid asset.

Representative PATMAN. Well, suppose you bought those under the present law. You are authorized to purchase through Federal Reserve banks up to, I believe, $5,000,000,000 direct from the Treasury; aren't you?

Mr. McCABE. Yes; that is right.

Representative PATMAN. Is that inflationary or noninflationary?

Mr. McCABE. That authority is used only when the Treasury has a refunding coming up and temporarily needs that credit. It is considered a temporary form of credit.

Representative PATMAN. But suppose they were to have an issue of $5,000,000,000, and you just bought them through the Federal Reserve banks? Would that be inflationary or noninflationary, as compared to the purchase by the commercial banks?

Mr. McCABE. If the Treasury were raising new money, it could be very inflationary.

Representative PATMAN. It could be very inflationary as compared to the purchase by commercial banks?

Mr. McCABE. Because, you see, it would create $5,000,000,000 of bank reserves.

Representative PATMAN. All right; I am afraid you are overlooking the last part of my question. I said as compared to the purchase by commercial banks.

Mr. McCABE. Yes; I will tell you why, Congressman Patman. The commercial banks have to carry reserves against their deposits.

Representative PATMAN. During World War II they didn't on all of them, on the purchase of bonds.

Mr. McCabe. No; but if the Treasury sells securities to the banking system in that way——

Representative Patman. They have to have a reserve on that, and the Federal Reserve would not have to have the reserve.

Mr. McCabe. Then to buy the securities the banks would have reserves.

Representative Patman. They would have to have reserves; that is correct. But the interest would be to that extent inflationary; wouldn't it? The interest that was paid as distinguished from the payment to the Federal Reserve banks which would flow back ino the Treasury?

In one case the Treasury gets it back; in the other case it stays in the channels of trade and distribution.

Mr. McCabe. Well, if you want to carry that to an extreme, assume that the Treasury does all its financing through the Federal Reserve, but carries deposits in the banks.

Representative Patman. Well, I wouldn't favor that. I would favor the banks having a fair ratio of Government bonds at all times, as a backlog. I believe that we need that, but over a certain amount, I think that you could, in an orthodox way, have the Federal Reserve banks purchase these bonds and save the interest on that part of the Government debt.

Mr. McCabe. Of course, you know in a lot of countries where they have very unsound financing they have used the central bank in such a way.

Representative Patman. I am not advocating that. I am just advocating that where the banks have their limit, and the Federal Reserves could carry a certain part of this and save the interest on that part to the taxpayers, you certainly could not contend that you have to pay interest in order to keep it from being inflationary.

If it is paid to the Federal Reserve banks and the banks pay it into the Treasury, that is just as anti-inflationary; in fact, more so, than for the commercial banks to collect the interest and keep it in circulation.

Mr. McCabe. If you did that to any extent you certainly would be creating high-powered money.

Representative Patman. I think we have pretty high-powered money now in some channels.

Now, on this increase in interest rate, what are you going to do with savings? Under the present law the Federal Reserve Board fixes the maximum amount that savings banks and commercial banks with savings accounts can pay on savings.

Now, you had fixed limits on that heretofore. It used to be 3 percent before that law, but after that it reduced to 2.5, and now it is down as low as 1 on short-term; but, if you increase the interest rates to the banks, are you going to increase the interest rates to the people who have savings accounts?

Mr. McCabe. We haven't taken any action on that.

Representative Patman. Have you considered action on it, Mr. McCabe?

Mr. McCabe. It has been discussed. All of our regulations are under constant review.

Representative Patman. But that would logically follow, wouldn't it? If you are going to give the commercial banks more interest, wouldn't it logically follow that the people who have their savings accounts in these banks should have more interest?

Mr. McCabe. There is one thing that I think you should understand, and that is that there has been only a moderate increase in short-term rates.

Representative Patman. You mean in the bills?

Mr. McCabe. Bills, certificates, and notes.

Representative Patman. That is right; that is in the rates paid to the banks, but I am talking about the rates the banks will pay.

Mr. McCabe. Here is a chart (chart No. 14, p. 95), to show you the trend of interest rates, sir.

Representative Patman. Yes; I am not too familiar with this, but I know they have gone up considerably.

Mr. McCabe. Yes, only moderately.

Representative Patman. So, since you have increased the rates that the banks receive, you might say 200 percent in the last 2 years, from three-eights of 1 percent to 1.5 or 1.75; that is about 200 percent or more.

Mr. McCabe. That three-eighths of 1 percent was only on bills in the war period.

Representative Patman. I know it was; but, if you are going to increase the rates that the banks receive, wouldn't it logically follow that you should also increase the rate that the banks pay the people who have savings accounts?

Mr. McCabe. I think you have some logic there. However, under the present regulation, banks can pay up to a maximum of 2.5 percent.

Representative Patman. That is right; on long-term.

Mr. McCabe. I think they only pay around 1 percent in my area.

Representative Patman. What do you mean "my area"?

Mr. McCabe. I mean the Philadelphia area, where I live.

Representative Patman. That is right; in other words, you fix the maximum rates, the Federal Reserve Board. They can even pay nothing if they want to.

Mr. McCabe. That is right. There is some tendency for those to go up now. I have noticed rates advancing in some of the western areas.

Representative Patman. And on demand deposits, of course, it is unlawful to pay any interest at all; isn't it?

Mr. McCabe. Yes.

Representative Patman. It is against the law?

Mr. McCabe. That is right.

Representative Patman. The Federal Reserve Board as now constituted consists of seven members; is that right?

Mr. McCabe. That is right, sir.

Representative Patman. And they are appointed for 14 years?

Mr. McCabe. That is right.

Representative Patman. The appointments are staggered?

Mr. McCabe. There is a term expiring every 2 years.

Representative Patman. And, formerly, when the Federal Reserve Act became law, say, December 23, 1913, on that Board there were seven members; but, in addition, the Secretary of the Treasury, the Comptroller of the Currency, and who else?—there were three.

Mr. McCabe. There were six, plus the Secretary and the Comptroller.

Representative Patman. That is all in addition to the Board.

Mr. Young. Eight altogether, including those two.

Representative Patman. Now, there are still seven, but they are off?

Mr. McCabe. That is right.

Representative Patman. The observation I want to make in asking this question is that: As it is now, the Federal Reserve Board has been become disassociated from the Government, the United States Government, upon whose credit the Board and all the banks operate.

That is, you are under no obligation to the President of the United States. He appointed you; you are obligated as a patriotic citizen to do your duty and do what is right, but you have no direct obligation to the administration in power, regardless of party, or to the President, or to the Congress; no direct obligation, and your Board and Open Market Committee can cause to be issued Federal Reserve notes which constitute about 95 percent of the currency; does it not, Mr. McCabe?

Mr. McCabe. 95 percent of the currency, not the money supply.

Representative Patman. I mean 95 percent of the currency outstanding; I don't mean to say total demand deposits, and things like that. Of course, they could be converted into Federal Reserve notes.

Now, who except the Federal Reserve Board and the Open Market Committee, causes Federal Reserve notes to be issued, Mr. McCabe?

Mr. McCabe. No one.

Representative Patman. Not even the Secretary of the Treasury?

Mr. McCabe. The Board determines that, sir.

Representative Patman. The Board determines it. In other words, the Board and the Open Market Committee operate exclusively upon the credit of the United States. In fact, every Federal Reserve note, I believe, says that the Government of the United States promises to pay upon demand so many dollars; not the Federal Reserve banks, not the Federal Reserve Board, but operates upon the mortgages of the people of this country, upon all their property, their earnings and everything else. They pay taxes to do that. Nobody else can issue those notes except the Federal Reserve Board.

The Secretary of the Treasury can't do it. The Comptroller of the Currency can't do it. Nobody connected with the Government can do it except this Board that is appointed for 14 years, and under no direct obligation, according to law, to the President of the United States and the administration now in power, or to the executive branch of this Government.

Is that correct, or not correct?

Mr. McCabe. Well, that might be. I would say, however, that it is an extreme way of stating it. In practice, I wouldn't say that. It certainly isn't literally correct.

In the first place—and I would like to make this very clear—the Federal Reserve Board of Governors, in fact, the whole Reserve System—is a creature of this Congress. The Board reports to the Congress. I doubt if there is any agency of Government that maintains a closer contact with the interested committees of Congress. Certainly there is a very close relation between the Federal Reserve Board and the respective Banking and Currency Committees of the

Congress. Important questions are discussed with the chairmen of the respective Banking and Currency Committees of the House and Senate. The Board is constantly alert to its responsibility and obligation to the Congress.

If you go back and read up on the history of the establishment of the Federal Reserve System, you will find that it was the desire of the founders that it be set up that way; that it occupy the role which it does occupy, and be responsive to the wishes of this Congress.

Representative PATMAN. And that is the reason why the Secretary of the Treasury and the Comptroller of the Currency were on there—to have some direct connection between the Government and the Federal Reserve Board.

Mr. McCABE. That was the original concept. You will remember that it was changed in the Banking Act——

Representative PATMAN. For some reason unknown to me they were both taken off. I know it was done in a conference committee. I looked up the history of it one time. I don't believe there was a single word of discussion in either House on it.

Mr. McCABE. It is my recollection that Senator Glass, who as a Secretary of the Treasury had sat by law on the Board, felt strongly on the question. It was his strong wish that the Secretary of the Treasury not be a member of the Board.

Representative PATMAN. Anyway, according to the original intention of Congress, there would be some connection there between the money-issuing powers of the Federal Reserve Board and the Government of the United States, and they put the Comptroller of the Currency and the Secretary of the Treasury on the Board.

The point I am trying to make now is that, since they are both off the Board, you have people wholly disassociated from the Government; they are a separate and independent agency. It is true you cooperate with the members of our committees on both sides; but for administrative purposes you are under no obligation to either the executive or the legislative branch. You can administer your affairs as you see fit and proper, and as the Board directs, without reference to either Congress or the Executive.

Mr. McCABE. If you went to that extreme, you could, sir. On the other hand, I will say again that I doubt if there is any agency of Government that coordinates its efforts better with other agencies of Government than the Federal Reserve Board.

Senator CAPEHART. Who took the Secretary of the Treasury and the Comptroller off?

Mr. McCABE. The Congress. By law.

The CHAIRMAN. Who could put them back?

Mr. McCABE. Congress.

Representative GAMBLE. Not by regulation W.

Senator CAPEHART. When were they taken off?

Mr. McCABE. In the Banking Act of 1935.

Senator CAPEHART. Why?

Mr. McCABE. As I say, Senator Glass played a very important part, in revising the Banking Act, as I understand it.

Senator CAPEHART. Who was Secretary of the Treasury at the time?

Mr. McCABE. Mr. Morgenthau. He took that same position.

Representative PATMAN. They took the position, I understand, that they seldom attended, anyway, and the public-debt transactions had not reached the point to where they felt like they should, but I think there is an entirely different situation now, when our public debt is over 250 billion dollars, as compared to a few billion dollars at that time. I think there should be some connection between the Government and the money-issuing power of this country, but the main point I want to make, and then I will be through, is that in a democracy we are subject to the will of the people; we should be, at least. "A democracy and a republic," I believe William Tyler Page said it should be called.

Mr. McCabe. That is correct.

Representative Patman. And in this case I think that any drastic power that is exercised in the direction of regimentation, like all credit controls happen to be, should be exercised only by somebody directly or indirectly responsible to the people.

Now, if you had the Secretary of the Treasury and the Comptroller of the Currency on there, who are appointed directly by the President of the United States, and can be removed at his will, and then if that Board did something clearly against public interest, the executive department could see that something was done to change it. But with the Comptroller of the Currency off, and the Secretary of the Treasury off, the Federal Reserve Board is separate and distinct from the Government; under no direct obligation to the people, not one member of the Board, and I can see where they would be in a position to do most anything they wanted to without regard to the public welfare—not the public welfare but to the public sentiment of the people.

Mr. McCabe. Let me say in that connection, sir, that it was this Congress in the Defense Production Act that spelled out that the Federal Reserve was to administer regulation W.

Representative Patman. Over my opposition, you see.

The Chairman. Well, I will add only this statement: It was over the opposition of Mr. McCabe, too.

Representative Patman. I think this was well known; the newspapers carried it at the time, the House fixed it so that the President, the Executive, who is under obligation directly to the people, would have absolute control. The Senate changed that so that the Federal Reserve Board had control over both regulation X and regulation W, so we finally got a compromise, the best we could get; those of us who didn't want the Federal Reserve Board, succeeded in placing regulation X under the President, with permission, of course, to delegate that to anybody he wanted to, but he is charged with it, and regulation W was placed directly under Federal Reserve.

But you will find a little sentence in there that he can take it off any time he wants to. That is the only thing we got in there.

Mr. McCabe. Congressman Patman, maybe you would have done us a favor if you had won.

Representative Patman. I am sure we would have.

The Chairman. Have you any further questions, Congressman?

Representative Patman. No; that is all.

The Chairman. Without objection, a copy of a letter I have here, dated October 6, 1950, from Mr. Glenn E. Hoover, of Mills College, Oakland, Calif., to the National City Bank, New York City, will be incorporated in the record at this point.

(The letter referred to follows:)

MILLS COLLEGE,
Oakland, Calif., October 6, 1950.

The NATIONAL CITY BANK,
New York, N. Y.

DEAR SIRS: In your monthly letter (September 1950) you discussed the inflationary effects of Federal Reserve bank purchases of governmental securities. Economists share your concern over present inflationary policies we are now pursuing, but not all of us will follow the commercial bankers in supporting only those antiinflationary measures which would make the banking business more profitable.

You apparently would curb inflation by having the Reserve banks restrict their purchase of Government securities, or, in any event, have them support the prices of such securities at lower levels. This would result in a general rise in the interest rates which the Government—and all other borrowers—would have to pay. This is the anti-inflationary program generally supported by commercial banks, but, despite its considerable merits, there are those who fear that it is advanced as much in the interest of the commercial banks as in the interest of our country.

You do not claim that higher interest rates would discourage governmental borrowing. If, then, the Reserve banks are to hold less of the Government debt, the commercial banks, presumably, will hold more of it, and at higher rates of interest. Such a program would make the commercial banking business, already an almost riskless one, even more profitable. As you know there are many economists, as well as members of the Federal Reserve Board, who would prefer anti-inflationary measures which would not result in profits for commercial banks for which we can find no justification whatever.

As you very rightly observed, Federal Reserve bank purchases of Government securities in the open market "is just as inflationary as direct lending by the Federal Reserve to the Treasury." You could have expressed the same idea by saying that direct lending by Federal Reserve banks to the Treasury is no more inflationary than open-market purchases by these banks. Perhaps you share the notion that the possibility of making such direct loans should not be openly discussed for fear that the public, including possibly some Congressmen, might learn of the way in which the Treasury could obtain funds without paying millions in interest each year to the commercial banks of our country.

You will have noted that when so respectable an authority as Dr. E. A. Goldenweiser, former Director of Research and Statistics of the Board of Governors of the Federal Reserve System, discussed this possibility of direct loans from the System to the Treasury (the Wall Street Journal, August 8, 1950), his proposals were condemned by Prof. Walter Spahr in Monetary Notes (September 1) as nothing but "John Lawism brought down to date." If there are economists who lose their temper and their professorial manners when direct lending of the System to the Treasury is suggested, the reaction of the commercial bankers can only be imagined, for they might lose as much as a billion dollars a year in interest if the Treasury borrowed only from the Reserve banks.

You will understand, I am sure, that I am writing as a firm believer in the free-enterprise system. I do not want the Government to own or operate our banks, or any other segment of our economy, unless private operation proves quite feasible. In my classes I have always defended the ethical claim of the lender to interest on loans whenever the granting of the loan involved some sacrifice by the lender. However, candor compels me to say that I cannot see what sacrifice is made by commercial banks which are permitted to "create" the money they lend to the Treasury.

The motion that commercial banks "create" money cannot be dismissed as merely a professorial aberration. Permit me to quote from The Economics of the Money Supply, issued in 1948 by the Chamber of Commerce of the United States:

"So long as banks are able to make loans on fractional reserves, they will be able to create money; and this is, today, one of their most important functions" (p. 8).

"It has already been seen that a commercial bank does not merely receive funds from one person and lend those same funds to another; the making of loans creates new money, new deposits, based on fractional reserves. It is the loan which creates the deposits. It is the loan which expands the money supply" (p. 10).

I should like to conclude by asking three questions:

1. Do you believe that if the Treasury were compelled to a pay higher interest rates, that governmental borrowing would be appreciably curtailed?

2. How can I justify to my students the payment by our Government in recent years, of billions of dollars of interest to commercial banks, if the needed funds could have been "created" and loaned by the Reserve banks free of interest, or, if interest were charged, it would revert to the Treasury as part of the earnings which the nonprofit Reserve banks return to the Government?

3. If the commercial banks were deprived of the opportunity to earn interest on Government securities, could they continue to operate? If not, would a direct subsidy be preferable to allowing them to earn interest on money which they first "create"?

This letter is sent in the belief that nothing is more important for the development of sound economic policies in the United States than a closer agreement between bankers and economists on the major issues of our time.

Sincerely yours,

GLENN E. HOOVER.

The CHAIRMAN. Mr. McCabe, we want to thank you for your statement.

Mr. McCABE. Thank you, Mr. Chairman. I have some material here that might be of interest if placed in the record.

The CHAIRMAN. Without objection, it will be inserted in the record.

(The material referred to follows:)

ANTI-INFLATION BATTLE REPORT

(Address by M. S. Szymczak, member, Board of Governors of the Federal Reserve System, before the one hundred and eighty-second annual dinner of the Chamber of Commerce of the State of New York, Waldorf-Astoria Hotel, New York City, November 16, 1950.)

I can only report on certain phases of this battle. As I see it, any report on our battle at home against inflation should begin with a broad consideration of its background. We know that international tensions have mounted steadily over the past 3 years. The Korean War is only the most recent of a series of crises. Korea, however, established the intention of the United States to support United Nations policy with force. It also brought to light inadequacies in our defense establishment in relation to our diplomatic and moral commitments to the free world. As a result, we are now greatly expanding our defensive power.

The international situation continues tense. Potential trouble spots are scattered throughout the world. In these circumstances, we must maintan a vigorous and integrated foreign policy consistent with the aims of the United Nations. This means for an indefinite time a much larger defense establishment than we have ever known in peacetime to meet our international commitments and to secure our own defense.

We do not know, at this time, how much an adequate defense program may ultimately cost. Nevertheless, actions already taken clearly indicate that present and forthcoming programs will exert a heavy strain on our economy and that we must gear our economic policy to the new situation. The President has stated that the size of the Armed Forces will double from the pre-Korean level of 1.5 million to 3 million men. Congress has appropriated an additional $17,000,000,000 for defense, military aid abroad, and an expanded stockpiling program. In men and dollars, this more than doubles the pre-Korean defense program, and indications are that further supplements may be needed.

The new situation has serious implications for economic stability. Great pressures are placed on our capacity to produce and our price structure is put under severe strain.

ECONOMIC IMPACT OF THE DEFENSE PROGRAM

Even before Korea, business and consumer demands were very high. Output of goods and services was at record levels both in terms of physical volume and expenditures. Unemployment was relatively low. In many key industries, output was at or close to capacity and further output depended on new additions to plant and equipment.

Now a greatly expanded defense program has been superimposed upon these large civilian demands. As the defense program accelerates total output will also rise with the increase in capacity, productivity, the length of the work week, and employment. Total production, in fact, may expand by as much as 8 or 9 percent over the next year, but it is not likely to rise as rapidly as the takings of the defense program. While total supplies of commodities and services available to civilians may show little change, or even increase somewhat, over the coming 12 months, in some areas, especially metal-using industries and residential construction, supplies may be sharply curtailed.

The attainment of such an increase in over-all production would exert severe strains upon our available supply of labor as well as on industrial capacity and supplies of scarce materials. It would seem conservative to estimate manpower requirements for defense production and the Armed Forces at 8,000,000 persons by the end of 1951, or about one-eighth of the labor force of 65,000,000. This allows for 5,000,000 workers in defense activities, about 3,000,000 more than at present, and an increase in the armed services to a total of 3,000,000 men. Since unemployment is now at low levels, the additional workers will have to come mainly from a greater than normal expansion in the labor force and transfers in employment from civilian to defense activities. If in the next year the labor force increases by 1,500,000 instead of the normal 600,00, it would still be necessary to shift some or two or three million workers away from production of civilian goods. In addition, it is likely that the work week will also have to be increased further.

As long as we are obliged to maintain a garrison economy, the volume of goods and services available to civilians will be limited by the size of defense programs relative to our ability to increase production. Much of our national strength in the past has arisen out of our capacity to expand our production and at progressively lower cost per unit in terms of man-hours employed. This has been the result of rapid technological progress, intensive use of capital equipment, unique managerial genius, and a trained and intelligent labor force. The survival of our democratic way of life depends in no small measure on our ability to maintain and possibly improve our past record in this area. This means that technological research must continue to have a high priority. Modern war is a war of technology as well as of men.

Increased production, however, will not be enough by itself to avert inflationary dangers as defense programs expand. The nature of the problem may be indicated by illustrative figures. Let's say that total gross national product in terms of third quarter 1950 prices might be increased by $25,000,000,000, or almost 9 percent from the third quarter of 1950 to the third quarter of 1951. But if, for example, defense takings account for $20,000,000,000 of the total increase, then only $5,000,000,000 would be left for additional private civilian and regular Government expenditures. Meanwhile, private incomes before taxes would be increased by $25,000,000,000. These rising incomes, unless drained off by a pay-as-we-go fiscal policy, will result in rising demands which cannot be satisfied and which will exert strong pressure on prices. Unless restrained, price advances under such circumstances will breed further price increases in an inflationary spiral.

The inflationary potential is further aggravated by the fact that both businessmen and consumers can increase their expenditures by reducing holdings of liquid assets and by making use of credit. These demands are in addition to those arising out of incomes earned through current production. Furthermore, as prices rise, incentives become stronger for shifting out of cash or its equivalent into real assets, that is, people buy goods and invest, and demand for credit becomes more urgent.

Rising prices raise material costs and stimulate wage increases. With high employment, tightening pressures upon manpower supplies, rising living costs, and expanding profits, workers are in a position to ask for higher wages. At the same time, employers must bid actively for labor by offering extra inducements to workers. Advancing profits tend to lower resistance to wage increases. With demand strong, business is able to raise selling prices to cover additional expenses. Thus, higher prices lead to higher wages, incomes, costs, and expenditures, and to higher prices again.

Developments in the third quarter of 1950 illustrated the nature of the inflation process. Defense expenditures rose only very moderately. Nevertheless, prices, incomes, and expenditures advanced very sharply. Incentives for accumulating inventory were very strong. Business revised sharply upward its plans for investment in plant and equipment. Consumers engaged in a buying spree of commodities which might eventually be in short supply. Consumer holdings of liquid assets were reduced and bank credit, reflecting especially loans to business and to individual buyers of consumer durable goods and houses, expanded at record rates. These developments were based primarily on changed expectations. A higher price, cost, wage, income, and credit structure was built into the economy even before the real pressures of the defense program on our available resources were felt.

THE ECONOMIC PROSPECT

What is the economic situation in prospect? It is not one of all-out warfare expected to last for a limited period of time. Rather, what we may face is a condition of Government expenditures which are expected to be high but below wartime levels for a number of years in the future.

In such a situation, direct controls like price and wage controls and rationing are both less necessary and less workable than in a period of all-out warfare. On the other hand, sopping up the excess purchasing power through taxes and monetary measures is much more feasible than under conditions of all-out warfare. Certainly as long as consumer durable goods are available in anything like the volume we can still expect, the task of allocating them among us would be exceedingly difficult. Furthermore, the longer direct controls are continued, the more difficult their administration becomes and the more likely it is that controlled prices will develop serious economic distortions as conditions of production change in the different industries.

Steps have to be taken, of course, to conserve and allocate certain strategic materials which are in scarce supply. But a harness of direct controls, including controls at the retail level, should be accepted only if needed as a last resort. In any case, even if direct controls should be adopted, it will be necessary constantly to mop up excessive funds so that the controls themselves will not become a sham while inflationary processes find their real expression in black markets and concealed transactions.

To say that we face an extended period of more or less chronic inflationary pressures does not mean that we face a period of progressive deterioration in the purchasing power of the dollar. It does mean that fighting inflationary dangers will be our continuing problem. It doesn't mean that we need to lose that fight. But fighting inflation cannot be painless. If we are to do it successfully, with or without a comprehensive harness of direct controls, we must accept the financial measures which are necessary to do the job.

It should be recognized that the prospect of an extended battle of fighting inflationary trends does not imply that business trends will follow a steady upward course. A garrison economy will have many difficult problems of balance in production, prices, and employment. Unbalanced conditions may develop which can only be corrected by temporary setback of activity. A continuing danger will be that of speculative excesses, which from time to time could go much too far. We could then even witness the spectacle of deflationary reversal at a time when underlying forces were on the whole inflationary. History of inflationary periods is filled with examples of that kind of economic development.

THE TASK OF MONETARY POLICY IN FIGHTING INFLATION

A dynamic economy requires enough money to permit a level of production which is compatible with a high level of employment. If, however, the amount of money in the economy is far in excess of available supplies of civilian goods, the saver may lose faith in the future purchasing power of his dollar. It is the task of monetary policy to see that the money supply is adequate for a fully functioning economy but not so large as to cause inflation with all its misdirection of human effort and other productive resources and its inequitable redistribution of real income and real wealth.

In the long run, an expanding money supply is required by an expanding economy with an increasing working population, increasing capital investment, and increasing productivity per worker. Our banking system has done a splendid job of supplying the financial resources to keep pace with our increased production.

But to keep the economy on an even keel from month to month and year to year requires constant vigilance. There are always incipient movements in the economy which, if allowed to develop, might result in run-away inflation or deflation. Whatever the initial cause of such developments, actions by the Federal Reserve can serve as an important offset. If a general price swing is caught early, it may take little to restore the economy to an even keel. It is much easier to check an inflationary or deflationary movement before it has become cumulative and before one-sided anticipations of business and consumers have begun to reinforce it.

It is just these incipient movements which monetary policy is best adapted to attack. Monetary policy is flexible. It can be applied rapidly, it can be applied gradually in experimental doses, and it can be easily reversed.

TYPES OF MONETARY MEASURES

Monetary measures include actions that influence the availability and price of funds to lending institutions and actions that directly define terms of lending—such as down-payment and maturity requirements—in certain fields of credit. The former measures affect primarily supply conditions for credit, the latter mainly demand conditions.

The availability and price of funds to lending institutions are influenced by open-market operations, changes in the discount rate, and changes in reserve requirements. These actions all have their major effect on bank reserve positions, although they may also immediately affect the lending ability of other groups of lenders.

Even at the risk of appearing either too elementary or, on the other hand, too technical, it seems appropriate to me, at this time, to define a little more clearly what is meant by bank reserves and reserve requirements. The term "reserves" may refer to any cash assets held by banks. For member banks of the Federal Reserve System, however, it refers generally to the deposits of commercial banks with the Federal Reserve banks. At the present time, country, Reserve city, and central Reserve city banks are required to hold reserves equal to 12, 18, and 22 percent, respectively, of their demand deposits and reserves of 5 percent of their time deposits. Thus member banks can now have demand deposit liabilities equal to about six times their reserves. If there is a change in either the amount of reserves or the percentage reserve requirements, then the amount of deposits the reserves will support is changed. This will change correspondingly the amount of credit that banks may extend, since, as you know, when banks increase their credits they increase their deposits and when they reduce their credits they reduce deposits.

Open market operations

Now let us consider the effect of open market operations, changes in discount rate, and changes in reserve requirements on the reserve position of banks. The Federal Reserve may at any time either purchase or sell United States Government securities. If the Federal Reserve shows a willingness to purchase Government securities at favorable prices and low yields, it encourages holders to sell them in order to secure funds to lend on more favorable terms to private borrowers. These funds thus find their way into the expenditure stream.

The sellers of securities to the Federal Reserve may or may not be commercial banks. In any case, Federal Reserve purchases will supply banks with reserves which, as I have indicated, may be the basis for multiple credit and deposit expansion. Any seller will be paid with a check on a Federal Reserve bank. If banks are themselves the sellers of securities, then they obtain reserves directly as a result of the sales. On the other hand, if the sellers are nonbank investors—say, insurance companies—they will deposit the proceeds in banks, since the Federal Reserve banks do not hold deposits for the general public. Thus in this case, too, banks will obtain increased reserve balances at the Federal Reserve. In either case, banks will find themselves with reserves in excess of legal requirements and will be able to increase their loans and deposits. As the deposits thus created are spent, other banks will find themselves with excess reserves. For the banking system as a whole, the increased excess reserves may form the basis for an increase of five or more times credit and deposit expansion.

It is easy to see, therefore, that if the Federal Reserve can avoid buying securities in the market it puts a powerful brake on the further expansion of bank credit. Moreover, if the System can sell securities from its portfolio it may set the stage for multiple contraction of such credit. When the Federal Reserve shows a willingness to sell Government securities at low prices and high yields, it encourages purchasers to buy them. Bank reserves will be drawn down either because the banks use them to purchase securities themselves or because depositors write checks on the banks to pay for securities purchased from the Federal Reserve. Unless banks as a group have started out with excess reserves, the banking system must either decrease loans and deposits by five or more times the decline in reserves or it must borrow reserve funds from the Reserve banks. Banks do not like to be borrowers except for very temporary periods, and so they make every effort promptly to adjust their affairs and to liquidate such indebtedness. The readjustment may involve contraction of lending, sales of investments, or both types of action.

However, it is important to point out here that the Federal Reserve does not carry on open-market operations only to bring about a net increase or decline in bank reserves. It may act merely to offset the effect on bank reserves of other developments, such as gold and currency movements. Furthermore, both the type of securities which are purchased and sold, and to some degree the extent of open-market operations, may be determined partly by conditions in the Government security market.

Decisions to purchase or sell Treasury securities are made with primary consideration to general economic conditions. But the Federal Reserve cannot ignore conditions in the Government security market, and the vigor and scope of open-market operations must always be tempered by the necessity for maintaining an orderly, functioning market.

Discount rate

Changes in the Federal Reserve bank discount rates are the second measure available to the Federal Reserve to influence availability and price of credit in general. The discount rate is the rate at which the Federal Reserve banks lend to member commercial banks. This measure is really a joint instrument with open-market operations. This is because it is desirable to adjust discount rates in accordance with the direction of open-market operations. If banks are losing reserves as a result of open-market operations, it may not be desirable to permit them to replace those serves by borrowing at the Federal Reserve banks, at least, not without an additional penalty by way of paying an increased discount rate. This additional penalty is both a deterrent to member bank borowing and, if borrowing is done, an incentive to repay the indebtedness at the earliest possible time. At the present time banks adjust reserves more frequently by purchasing and selling short-term Treasury securities than by borrowing from the Federal Reserve and repaying such credit. However, the terms on which banks can borrow from the Reserve banks may be important at certain times. Furthermore, changes in the discount rate are looked to as one evidence of the opinion of the Federal Reserve regarding the general credit situation.

Reserve requirements

Changes in reserve requirements are a third means of influencing bank reserve positions and thus the ability and willingness of banks to lend. Changes in reserve requirements do not lend themselves to flexible adjustments as do open market operations and discount rates. However, there are times when because of large Treasury borrowing needs or other special circumstances in the market, open-market operations and discount changes may not be feasible on a large enough scale to bring about the desired change in bank reserve positions. Under such circumstances, an increase or decrease of reserve requirements may be appropriate. The Federal Reserve now has the power to vary requirements on demand deposits between minimums of 7, 10, and 13 percent for country, Reserve city, and central Reserve city member banks, respectively, and corresponding maximums of 14, 20, and 26 percent. In the period August 1948 to June 1949 it had authority to raise them to maximums of 18, 24, and 30 percent.

If reserve requirements should be raised from an average of, say, 17 percent to an average of 20 percent, each dollar of reserves would become the basis for $5 rather than $6 of deposits. Unless the banks had excess reserves to begin with, they would be forced to decrease their loans and deposits correspondingly or to raise new reserve balances by selling securities. The fact that they need to sell securities or borrow imposes a penalty on banks and acts as a deterrent. Furthermore, each new dollar of reserves received would form the basis for a smaller amount of deposit and credit expansion.

Selective credit measures

In certain fields of credit the Federal Reserve sets the terms of lending, and as I said before, these terms directly affect the demand conditions for the affected credit. These fields are stock-exchange credit, where margin requirements are set; and consumer and real-estate credit, where, under emergency authority down-payment percentages and repayment periods are regulated. These fields lend themselves particularly to this type of regulation because terms of such loans can be standardized. By an increase in margin and down-payment requirements and by a shortening of the period of repayments of real-estate and consumer loans; some purchases are prevented. Those purchasers who are able to meet the requirements are more likely to have to cut down on other expenditures to make the larger payments both at the time of purchase and subsequently.

All of the actions of the Federal Reserve are taken under the authorization of Congress, and the Federal Reserve endeavors to keep Congress informed on the measures applied. In its annual report to Congress the Federal Reserve summarizes the steps taken and the economic conditions giving rise to them. Furthermore, the members of the Board, the officials of the Federal Reserve banks, and the System's economic advisers are always ready to go before Congress to explain the actions taken and to express their views on the economic situation.

THE ROLE OF FISCAL AND DEBT MANAGEMENT POLICY

I am not suggesting for a moment that monetary policy can operate independently of other policies, particularly tax and fiscal policy and debt-management policy. For maximum effectiveness, monetary, fiscal, and debt-management policies should work hand in hand.

The level of prices and of economic activity is greatly influenced by the relationship between Treasury receipts and expenditures—that is, by whether there is a surplus or a deficit. Whether Treasury securities, both new and refunding issues, are being sold to bank or to nonbank investors likewise has an important effect on the economy. A cash surplus on the part of the Treasury can be a very potent measure in combating inflation. This is particularly true if the excess of taxes over current expenditures is used to retire bank-held debt and thus to reduce the supply of money in the economy.

There are circumstances, of course, under which it is impossible for fiscal policy to serve in the desired manner. For example high expenditures required by a defense or war emergency may be responsible for an inflationary movement. In such a situation it may be unrealistic to expect a Treasury cash surplus.

Even when fiscal and debt-management policies are fully appropriate to the economic situation, however, monetary policy still has an important part to play in maintaining economic stability. Monetary policy alone is especially designed to influence the extent of private spending with borrowed funds. Furthermore, the flexibility of monetary policy makes it a desirable part of any program for achieving economic stability. It is possible for the Federal Reserve to act while the means for increasing taxes and expenditures are being decided upon. It is possible for the change to be in much smaller steps and to be reversed if conditions change. Although debt-management policy can be more flexible than taxation and expenditure policies, debt-management policy is limited by the structure of the debt outstanding as well as by a relatively narrow scope as compared with monetary measures.

MONETARY-FISCAL MEASURES ALREADY APPLIED

A number of important actions in the monetary and fiscal area have already been taken to combat the present inflationary situation by curbing private expenditures. One of the most important has been the increase in individual income taxes, by which some of the excessive purchasing power is being absorbed. This tax increase is a proper beginning, but further increases will be necessary. There is no reason under present circumstances why tax increases should not keep pace with increases in expenditures so that a balanced budget will be obtained. Considerations of economic stability certainly demand that Government receipts at least equal expenditures. With present income levels, we can and we must cover by taxation the level of expenditures anticipated for the next few years.

But even if we should have a balanced budget, monetary and credit measures are not automatically eliminated. Some of the taxes will be paid with funds which would otherwise have been saved rather than spent, while Government expenditures will all find their way into the expenditure stream. Furthermore, there will be increased private expenditures for plant expansion, which will swell the total expenditure stream. These additions to expenditures must be offset by monetary and credit measures. To the extent that the budget is not balanced, however, monetary measures become much more important. Some steps have already been taken in the application of monetary and credit restraints, and others may prove necessary in the future.

With a view to limiting the availability to credit and affecting its cost, the Federal Reserve banks increased their discount rate from 1½ to 1¾ percent in

August. As a result of the system's anti-inflationary open-market operations, interest rates in the market rose, with yields on short- and intermediate-term Government securities up generally about one-fourth of 1 percent since the middle of August.

Steps also have been taken to control the granting of consumer and real-estate credit directly by the establishment of minimum down payment requirements and maximum terms to maturity under authority of the Defense Production Act of 1950. Effective September 18, the Federal Reserve issued regulation W setting minimum down payment and maximum maturity for consumer credit. As revised on October 16, it provides for minimum down payments of one-third on automobile purchases, 25 percent on household appliances, and 15 percent on furniture, and sets the maximum period for repayment generally at 15 months. Effective October 12, the Federal Reserve issued regulation X defining the terms of real-estate credit of private lenders. At the same time, the terms for Federal Housing Administration and Veterans' Administration loans were tightened. Minimum down payments now range from 5 percent on houses for veterans costing under $5,000 to 50 percent on houses for nonveterans costing over $24,250. On a $9,000 house, the minimum down payment is set at about 11 percent for veterans and 21 percent for nonveterans. The maximum time for repayment is generally 20 years.

Over the period ahead fewer cars and other durable items and fewer new homes can be built if our defense needs are to be met. Regulations on consumer and real-estate credit are designed to bring demand for consumer durable goods and housing into line with the necessary lower levels of production of civilian goods. If these credit controls were not in effect, other devices would have to be developed for accomplishing the same result or we would have spiraling prices, crippled war production, and black or gray markets.

Monetary expansion also can be kept down by appropriate debt management policy. At the present time the economic situation calls for sales of securities to nonbank investors. Should new borrowing be needed under present circumstances, the funds should be obtained if possible outside the banking system. As much refunding as possible should be done through sales to nonbank investors. The offering of securities which are attractive to such investors as insurance companies will decrease their willingness to make business and real-estate loans and to purchase corporate and local government securities. At the same time, it will decrease the necessity for the sale of Government securities to banks with accompanying monetary expansion. A beginning has been made in this direction through the opening up this fall of more series F and G savings bonds to institutional investors.

SUMMARY

Steps taken to combat inflation are not painless for consumers. Taxes are not painless. Neither are the restrictions on purchases involved in the regulation of credit. But taxes and credit measures are much more equitable than inflation itself. They are also much more compatible with our free enterprise economy than are price and wage controls and rationing. They leave a maximum amount of freedom for market processes to operate. They stabilize the general price level by influencing the total amount of expenditures. At the same time, they leave prices of individual items free to fluctuate in accordance with changes in demand and supply. Through the pricing mechanism, goods are still distributed to purchasers with the strongest demand and manpower and materials are attracted to the production of goods for which demand is greatest in relation to supply.

It is too early to judge the effects of the various indirect measures which have been taken to combat inflation. If the steps which have been taken thus far prove to be insufficient, then further measures must be taken promptly. It seems clear that taxes will need to be increased substantially before many months. Additional monetary and credit actions may also be needed and for this purpose it may become necessary to request additional authority of Congress in order to restrict the availability of reserves on which multiple expansion of bank credit can be based. As the future unfolds we will know more fully what measures will be required to meet it and we must be prepared to obtain authority for and to apply necessary measures. With resolute and timely action we can win the battle against inflation and keep our economy free.

[From Fortune magazine, November 1950]

GREAT DAY FOR THE DEALER—PROFITS OF THE AUTOMOBILE RETAILER GO FROM GOOD, TO FABULOUS, TO OUT-OF-THIS-WORLD. HAD ENOUGH?

Some people may remember the typical United States automobile dealer of 20 years ago—a bluff and breezy, eager-to-please entrepreneur who stepped right lively for his living and often had to talk fast and earnestly to the local banker in order to tide over his accounts payable during the slack season. The same fellow today, grown aloof and even furtive at the surge of supplicant customers, sometimes finds it a strain merely to be civil. Now it is the banker who talks fast and earnestly to him, if, indeed, the dealer himself is not the local bank's big wheel.

For there is scarcely any secret about the fact—though specific figures are off the record—that dealers are reaping an undreamed-of harvest. If you rule out the Texas Big Rich and a few other financial freaks who have made speculative killings, you will go a long way before finding a class of legitimate businessmen that has made so much money so easily as the automibile dealers of America in recent years. The chart on profits runs from surprisingly good during the last war, to fabulous for the postwar years 1947–49, to out-of-this-world for 1950 when a combination of unprecedented production of new cars plus a wave of war-panic buying last summer and fall resulted in another, totally unlooked-for bulge in dealer earnings. There's no mystery about the source—the markup was designed to compensate the dealer for used-car trading losses that he no longer has to take; the consumer, not the manufacturer, is paying for this round.

From known factors it can be roughly estimated that the aggregate net earnings of United States automobile dealers are now running beyond 1.5 billion dollars, which would indicate that the average earnings per dealer hover somewhere between $40,000 and $50,000 per year. Since there are many marginal dealers with poor territories and low factory allocations, at the other end of the scale there are dealers who earn, with some consistency, as much as $50,000 per month, and have indeed known a number of months when their net ran to $100,000 or more. As a "small" independent business, a good automobile franchise is beyond comparison with anything else in the retail field for value and opportunity. It could be, indeed, too good for the ultimate health of the industry. In what other enterprise, for example, could a man with a modicum of experience invest less than $50,000 at the end of the war, earn back his outlay in the first year, and in the four succeeding years pile up enough profits to turn in his chips and retire? Many opportunists, to the anguish of Detroit sales managers, have done so. But thousands more have remained loyal to the fountainhead, and some have expressed their gratitude in rather amusing ways.

Back in the fall of 1946 when the Ford Motor Co., in a smart public-relations gesture, announced that its operations for the year, owing to reconversion costs, had resulted in a loss of $50,000,000, one Ford dealer was so moved that he promptly mailed a check for $11,000 to poor Henry Ford II, explaining, "This represents one-half of my last month's profit, which was more than I had hoped to earn for the entire year." Early in 1950, when Chrysler workers walked out and John L. Lewis grandiosely offered to loan Walter Reuther's United Automobile Workers a million dollars to nourish the strike, a loyal Chrysler dealer trumped him by offering the company his check for $10,000 as a gift and volunteered to collect a like amount from 9,999 other Chrysler dealers. Although the offer was declined, Chrysler had no reason to doubt the dealers' sincerity, nor, for sure, their capacity to deliver.

POSTWAR WAS WONDERFUL

For that matter, the dealers are not above enjoying an occasional family joke on the state of their fortunes. In June, 1949, several hundred General Motors dealers foregathered at the Hotel Statler in Detroit for a testimonial dinner to General Motors' Chairman Alfred P. Sloan, and Donaldston Brown, chairman of the corporation's finance committee. These dealers were alumni of the Motors holding division, which was organized early in 1930 by General Motors to supply loans to needy dealers. All present, therefore, at some point in their careers had either been bailed out or shored up by this special General Motors apparatus. But they made a fine body of men on this June night in 1949, and as the toastmaster, a witty dealer from Dallas, looked out over the sea of stout and shining faces he said, "Gentlemen, I realize it is not in good taste for an automobile dealer to talk about profits today, but I can tell our honored guests very frankly that for the first time in the history of the automobile business, dealers are afraid that they might be kidnaped and held for ransom." The Statler rafters rocked.

Now it was fitting that the guest at this feast should be Alfred P. Sloan; and not only Motors' holding alumni but all dealers of all companies should salaam at the sound of his name. For to understand the reasons for the boundless prosperity of dealers today, it is necessary to revert briefly to their wretched estate of a quarter-century ago, and to the reforms then started by Mr. Sloan at General Motors and ultimately adopted by all auto manufacturers.

In general, the dealer operated under a franchise which could not be canceled without cause or notice by the company; he had no territorial rights or guaranties to speak of, and his discounts on new cars ranged from 17 to 21 percent. Worst of all, the manufacturers' production schedules were based not on careful market analysis, as they are today, but on rough judgment or hunch. As many cars as the hammer-happy factory elected to make, it shipped, and the dealers customarily took them for fear of losing the franchise. In order to sell such a volume of new cars, the dealer frequently traded away his entire profit by granting exorbitant allowances on used cars.

Even in 1928, when General Motors enjoyed its greatest prewar year with a production of nearly 2,000,000 units and profits of more than $276,000,000, General Motors dealers as a whole, for all their frenzied selling and swapping of cars, banked comparatively little. And the year 1929 for them was less profitable. Thus, the automobile dealers were already down and some of them nearly out when the great depression settled on the United States. At the end of 1932, General Motors dealers as a body (who were certainly doing at least as well as the average) had nothing to fear but fear itself and the knowledge that in the preceding 12 months they had lost a cool $27,000,000.

Alfred P. Sloan, believing that General Motors Corp., for all its production prowess, would ultimately prove to be no better than its distribution system, had for many years pounded away at this problem of dealer instability. In the early twenties he conceived the idea of hiring the R. L. Polk Co. to furnish the industry with monthly reports of new cars registrations, and later he instituted the 10-day dealer report and a compulsory, uniform accounting system for dealers. Once the industry was established on this elaborate "figure basis," the dealer's situation gradually began to clarify and hence improve. Factory production schedules could now be tied in more closely with actual sales trends, thus minimizing the danger of a sudden glut in dealers' stocks. Also, the new figures and facts at hand enabled the manufacturer to use a litle science in the placement of dealerships: instead of flooding a territory with franchises, and thereby encouraging dealers to tear each other apart competitively, dealerships were deployed, in protected territories, on the basis of known market potentials.

In the deep desperation of the thirties, the manufacturers intensified their efforts in this direction. Most of them had already followed General Motors' lead in boosting the discount on new-car sales to 25 percent or more. Now Mr. Sloan forged still further ahead in the way of financial adjustments and contractual reforms. He instituted the so-called 3-percent rule, by which the factory, at the end of each model year, agreed to grant a rebate on all old-style cars—in excess of 3 percent of his current annual purchases—that were left on the dealer's hands. Provision was also made for adjusting the losses of dealers caught in the middle of factory list-price reductions. The manufacturer, in short, was finally volunteering to share with the dealer the penalties for mistakes in the manufacturer's judgment. Most important of all, perhaps, the manufacturer sat down with the dealer in an effort to work out some answers to the treacherous used-car problem.

In approaching this problem the manufacturer was guided by a tenet that was universally held at the time, namely, that the automobile business had reached a point of maturity, or, if you please, saturation, and that the market of the future would be largely a replacement market. It was a contention that—who knows?—may still prove out over the long run. But for the short run, and in the light of an unforeseeable war, it was a major miscalculation from which the automobile dealer has benefited mightily. For it followed from such a belief that the used-car problem was a permanent affliction, and that the dealer would always lose money—and not just a little but a lot—on his trade-ins. Dealers were taught, in fact, not to haggle over allowances on used cars, nor to hoard them for speculation. They were counseled to pay the going price, unload them quickly, and build their earnings by the increased sales of new cars. It was estimated that under the liberalized, protective contract, the 25-percent discount on new cars, and the

40-percent allowance on parts and accessories, the dealer could stake quit a lacing on the used-car trade and still make a reasonable over-all profit.

And so he could. Prewar, it was not uncommon for a dealer to expect that of every dollar of gross profit he made on sales, as much as three-quarters of it would be written off as trading loss. But if he was any kind of manager and had a service absorption (i. e., ratio of parts-and-service income to running expenses) of 70 percent or better, he could still enjoy a reasonable profit. Most manufacturers felt that the average dealer, selling 100 new cars a year, plus a proportionate volume in parts and service, could take such a trading loss and still net 2½ percent on sales, or to put it another way, earn 15 percent a year on his investment over the cycle. On this basis, the dealers began to work their way back to solvency and security. In 1936, for example, the General Motors dealer body, though somewhat smaller in numbers than in 1932, earned an estimated aggregate profit of $51,000,000, and many individual dealers made more money in 1936 than they had in the great production years of 1928 and 1929.

But when the United States became embroiled in World War II, and the manufacturer of passenger automobiles ceased as of February 1, 1942, the dealer again became an object of sympathy and concern. It was expected that dealers would quit the business in droves, and in an effort to halt the disintegration, manufacturers were willing to promise the dealers the moon, postwar, if they would stand by for the duration. General Motors, for example, besides offering to take back for cash the heavy stocks of new cars their dealers were carrying in the winter of 1942, pledged that dealers who remained in business would be allocated cars, postwar, on a scale proportionate to their prewar sales, and also assured them that, come peacetime, General Motors would refrain for at least 2 years from appointing new dealers other than replacements.

What actually happened, after the panic subsided, was that dealers buckled down to a profitable wartime business. They found that their stocks of used cars, with which they had become well loaded in the fall of 1941, could be sold for a neat profit, while those who held on to their new cars received an unexpected bonanza when they began to sell them off to essential users—the OPA's escalator clause permitted a rise in price of 1 percent for each month the car was held by the dealer. But most important, the dealer, taking a new approach to the parts-and-service end of the game, became a crack businessman, and not just a salesman or horse trader. As his managerial ability developed, he found to his amazement that there was a clean profit to be made in the automobile business even though there was not a single new automobile to sell. Prewar, the dealer who could cover as much as 80 percent of his running expenses and overhead from his parts-and-service profits was considered a top operator, but during the war the average Ford dealer, for example, boosted his service absorption to 141 percent. At war's end, consequently, the dealers were at a peak of efficiency and financial strength.

POSTWAR WAS WONDERFUL

Thus, in apparent innocence, was the stage set for the almost unconscionable boom in the retail automobile business that began with the resumption of car manufacturing in 1946 and has continued ever since. How, indeed, could the dealer miss? Take the 100-a-year car dealer noted above who was geared to making a reasonable net in the thirties even though his trading losses ran to 75 cents or more out of each dollar of gross profit. Under the new economics that 75-cent loss was automatically transferred into profit, and the dealer proceeded from that new level to take the going profit on the resale of the used car. In 1946 this profit started as high as 27 percent—more than the profit the dealer could legitimately take on his new car—and averaged out for the year at around 20 percent. In 1947 and 1948, better than 15 percent was realized on used-car trades; in 1949, 1 or 2 percent. In early 1950 the dealer was resigned to losing a few dollars on the deal. Then the Korean crisis reversed the trend and shot this profit up to 10 percent in the summer months.

So it can be readily seen that the "average" dealer, who netted 2½ percent on sales prewar, made a lot closer to 15 percent in 1946 and 1947, and even now, when he's approximately breaking even on used-car trades, is good for 6 or 7 percent a year on sales. But that's only part of the story, because, of course, he's selling nearly twice as many cars per year as he did prewar. For the manufacturers have kept their promise. Despite an increase in unit production of more than 50 percent over 1941, the number of dealers has remained approximately the same.

The manufacturer, for that matter, does not appear to be concerned, as yet, about the spectacular earnings of his dealers. Having finally devised a system of distribution that would give the dealer safe conduct over the cycle, he is not of a mind to tamper with it during this abnormal or "transitory phase," as he regards it, when the dealer is making so much money he can hardly roll over in bed.

As for the dealer himself, he is not without his doubts and apprehensions and the assorted neuroses that often afflict the rich. Like the manufacturer, he believes that he is going through a transitory phase that is too good to last. Since 1949 he has been haunted by the approach of the buyers' market, and at the Atlantic City convention of the National Automobile Dealers Association in January 1950, the members angrily called on the manufacturers to curb their patent overproduction; some said cars would be running out of the showrooms and into the alleys by spring. But the manufacturers went on to make 25 percent more cars than in 1949, and the dealers enjoyed the greatest year in history. In the early fall of 1950 all alleys, and a good many showrooms, were clean.

Perhaps the dealer has been oversold on the hazards of his profession by the exaggerated exhortations of the factory sales managers and fieldmen who have had nothing better to do, during the long-drawn-out bull market in automobiles, than pump up an artificial sense of urgency about the need for harder selling, better bookkeeping, closer attention to service, etc. The sales manager knows, of course, that after nine noncompetitive years the dealer has grown a little soft, and the only way he can be galvanized is to threaten him with the horrors of an imminent buyers' market.

Buyers' market or no, it shouldn't be too tough for dealers in the immediate future. Even the threat of total war, or the curtailment of production in the course of preparing for war, should not work any disproportionate hardship on him.

If the automobile market should, from natural causes, slip as much as 25 percent in 1951, where would this leave the dealer? It would put him, approximately, in his 1949 position—hardly a cause for tears. If, on the other hand, automobile production were cut back 25 percent by order of the new National Production Authority, it might well result in a substantial rise in dealer profits. For if production in 1951 is forced back to 1949 levels and demand continues at the 1950 pitch, the automobile dealer would be right back in the 1947–48 groove, taking a $300-to-$400 profit on each used car, and a full discount on new cars. All of which means that he would make as much money on 5 cars as he now makes on 20. But he would still have a lot of cars to sell—remember that 1949 production was in excess of 5,000,000 passenger automobiles—and it is probable that his profits would exceed anything ever experienced, including 1950.

MOBILIZATION OUTLOOK

In the fall of 1950, Detroit automobile manufacturers, who are as well versed in the problems and plans of war production as any group of industrialists in the United States, did not know the dimensions or the timetable of the United States rearmament program. Short of all-out war, however, they could envision no call to pull the switch on automobile assembly lines. Of course, production might be curtailed to release not capacity but manpower and materials, though the car makers earnestly hope that Washington will not be hasty with such orders and heave people out of work before the long process of firming blueprints and setting up assembly lines for war orders is completed. Considering the 10,000,000 units per year rate at which the automobile industry is now roaring, a 25 percent cutback, either a decline in demand or by fiat, would release sufficient steel for a terrific amount of ordnance—more, no doubt, than the Pentagon is prepared to place firm and specific orders for until many months have passed.

The automobile industry is very much alive at present, therefore, and with its customary advanced planning, is scheduled for high output throughout the first 6 months of 1951. If this gives the dealer the jitters, he should reflect, for a moment, on the odds involved. If the manufacturer has been overoptimistic, the dealer, of course, can expect to take something of a trimming. But the manufacturer, it must be remembered, can cut back production almost overnight, whereas if he is caught with an nsufficiency of cars it will take him months to marshal the labor, materials, and parts to increase output. An overproduction of 15,000 cars would mean, in the reverse, a shortage of 50,000 cars. Any good crapshooter would know what to do in a case like that.

Finally, if all-out war comes, and automobile production is stopped forthwith, there should be no disposition on the part of the dealer, this time, to take to the hills. What he did before he can do again, and he would face this emergency with triple the financial strength, and 10 times the know-how, that he brought to the problem in 1942.

Is it time, perhaps, for the automobile manufacturer to take another look at his distribution system? In the early days, when the industry encountered a chronic sellers' market such as we have today, the manufacturer did not hesitate to readjust the system radically. It will be recalled that automobiles were first marketed in the United States through large distributorships, and people still talk about the legendary fortunes made by men like C. S. Howard (who raced the great Seabiscuit), Inglis Uppercu, the New York sportsman, and Earl C. Anthony, whose Packard agency controlled all California. When these distributors in the early twenties began to make vastly larger profits than the manufacturers themselves, the manufacturers broke up the deal, became their own wholesalers, and turned to marketing their cars through independent dealers almost exclusively. The parallel with the current situation is rather intriguing: for all the astonishing profits General Motors Corp. is rolling up today, it's a good bet that the aggregate profits of General Motors dealers are topping them.

When the economy reversed itself in the thirties, and dealers were being squeezed to death in a buyers' market, Mr. Sloan's farsighted reforms undoubtedly saved the day. It was a brilliant accomplishment, and the formula was expertly tailored to conditions then existing and to the future as well, if the cyclical character of the business persisted as everyone thought it would. Right now, however, it is out of joint. Dealers are making more than they deserve, consumers are paying too much for their automobiles, and who can say that the end is in sight? Judging from the generous 5-year contract that GM just signed with its factory workers, it would scarcely seem that the manufacturers are selling the United States economy short. Why is not the same confidence extended to the durability of the dealer's prosperity?

It is certainly not suggested that they should proceed to tear down the wonderful house that Mr. Sloan, and others of his stature, built. Merely to cut the dealer to size would, apart from satisfying the sadistic have-nots, solve nothing unless it accomplished either a reduction in price to the consumer, or an improvement in service, or both. Considering the character of the market up to now, it is hardly likely that an increase in the dealer body would serve either of these purposes. The problem has been a shortage of cars, not dealers, and the fact that the capital investment of dealers is now three times what it was in 1941 is perhaps proof that facilities are adequate.

The short answer would seem to be a reduction in the discount, provided it was directly passed on to the consumer. But the automobile manufacturer likes to think that he does not really "fix" prices, but that the prices of automobiles automatically adjust themselves to proper economic leevls through the variables in allowances on used cars. It is a perfectly sound theory, and nothing can be said against it except that in practice it has been inoperative for the past 9 years. And as far as many dealers are concerned, it will never be operative again, if they can help it. There have been some fundamental changes not only in the size of the market but in distribution practices, including the growth and influence of used-car dealers who have provided new and rapid outlets for the disposal of used cars. Franchised dealers do not desire and may not be required to return to the old trading routine.

If this is the prospect, it would seem to call for a reappraisal of the discount, not only in the interests of the manufacturer and consumer, but in the long-run interests of the dealer himself. He is indeed a useful American and almost the last independent merchant on Main Street, and it would be a shame if the zest went out of his life and work. Last August, for instance, when the Korean conflict started the motor merry-go-round all over again, a harassed and disconsolate Oldsmobile dealer turned his key in the door. "I'm going away," he said. "I don't want to see any customers. I've sold enough cars." After all, it's only money.

Used-car prices in selected cities, 1949 models

City	Make	June 18	Aug. 18	Dec. 3
Atlanta	Chevrolet	$1,478	$1,710	$1,313
	Ford	1,333	1,507	1,216
	Plymouth	1,540	1,645	1,312
	Average	1,444	1,628	1,280
Cleveland	Chevrolet	1,483		1,303
	Ford	1,365		1,148
Dallas	Chevrolet	1,562	1,695	1,371
	Ford	1,351	1,495	1,220
	Plymouth	1,595		1,385
	Average	1,500	1,609	1,324

DECEMBER 11, 1950.

From: Detroit.
To: Heath.

Advertised cash prices on cars as follows:

	May 14		August 13		August 20		November 19		December 10	
	Number	Price	Number	Price	Number	Price	Number	Price	Number	Price
Chevrolet sedans	9	1,187	7	1,326	2	1,300	10	1,015	4	950
Ford sedans	7	1,076	4	1,198	2	1,045	6	880	5	875
Plymouth sedans	6	1,124	4	1,971	4	1,140	4	935	2	970

No differentiation made in ads of two- or four-door or ordinary or de luxe models. All cars 1948 models.

Three big Chevrolet dealers show 1948 Stylemaster, May and August, 1,100; December, 847; Fleetmaster, May and August, 1,261; December, 898. Plymouth sedans, August 13, 1,071.

Dealer comment indicates high average in December previously reported caused by padding both ends of deal to make down payment.

Average terms prior to regulation W; 25 percent down payment; 21 months maturity.

BLOOMFIELD.

The CHAIRMAN. The hearing is recessed until Monday at 10:30 a.m., in this room.

(Whereupon, at 4:15 p.m., the hearing was recessed until 10:30 a.m., Monday, December 11, 1950.)

DEFENSE PRODUCTION ACT
REGULATION W—AUTOMOTIVE

MONDAY, DECEMBER 11, 1950

Congress of the United States,
Joint Committee on Defense Production,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to recess, in room G-16, the Capitol, Representative Paul Brown (vice chairman) presiding.

Present: Senator Capehart and Representatives Brown and Patman.

Representative Brown. The committee will come to order. Our first witness is Mr. Frank Cain.

STATEMENT OF FRANK CAIN, GENERAL COUNSEL, NATIONAL USED CAR DEALERS ASSOCIATION

Mr. Cain. Mr. Chairman, my name is Frank Cain, general counsel of the National Used Car Dealers Association.

Representative Brown. Will you pardon me just a moment. Mr. Patman desired to be here. He had to go to the hospital, but thinks he will be here by 10:45. You may proceed.

Mr. Cain. Thank you, sir. We would like to put this case on. I have here Mr. Ray Hayward, president of the Nebraska Used Car Dealers Association, and Mr. Walter Wilson, who is president of the National Used Car Dealers Association.

As you know, we were scheduled originally to testify Friday. Time would not avail us of that opportunity. We had at that time some fifty-some-odd dealers here in the Capitol, representing all the areas in the United States. They brought very short speeches with them. I would like to introduce some of them at this time into evidence.

They are as follows: A statement by Mr. S. A. Terrell, general counsel for the Ohio State Used Car Dealers Association, and of the Cleveland, Ohio, Used Car Dealers Association; also the testimony, together with a sampling survey of the Chicago Used Car Dealers Association; and a statement by Mr. Sol Steelman. president of the Greater Chicago Used Car Dealers Association, all of which we present for the record.

Representative Brown. They may be inserted into the record.

(The statements referred to are as follows:)

Statement of S. A. Terrell, Attorney at Law, Cleveland, Ohio, Representing the Cleveland Used Car Dealers Association

The Cleveland used-car dealers consider it their patriotic duty to acquaint their Government with evidence gathered in their community indicating the adverse effects of consumer credit control, known as regulation W.

We believe our evidence will show that if the purpose of the regulation is to halt inflation by preventing installment purchases of nonessentials and further conserve necessary materials and metals, such regulation has failed.

On the other hand we believe that our evidence will indicate that if the purpose of the regulation is to discriminate wrongfully against one segment of American business—the used-car industry, then the regulation has succeeded.

If its further purpose is to confiscate the property of the used-car dealer, to prevent the ordinary citizen who most needs it from having cheap, proper, rapid, and adequate transportation, and to divert funds from purchases of necessaries to purchases of luxuries, then the regulation has succeeded.

We say that the practical effect of regulation W as to used automobiles is detrimental to its own purpose and therefore must be altered.

For evidence we submit the following:

1. The Cuyahoga County clerk's office has issued the following number of used passenger car certificates of title from July through November 1950:

	Number		Number
July	6,806	October	4,881
August	6,246	November	4,026
September	5,197		

For the period from July 1, 1950, to September 18, 1950, prior to regulation W the Cuyahoga County clerk's office indicates 16,170 used-automobile titles issued. From September 18, 1950, through November 30, 1950, when the first effects of the regulation and its subsequent further restriction became evident, the clerk's office shows 10,986 used vehicles transferred or a drop of 5,184 cars, a per centage decrease of 32 percent, unadjusted for seasonal variations. This means that one out of every three persons could not afford to purchase a used motor car after the advent of regulation W.

2. A survey of Cleveland used-car dealers indicates the severe loss of business following the regulation. For analysis purposes the volume of business of four Cleveland dealers, representative of the group, have been used. These are: State Auto Sales, Inc.; Finance Auto Sales Co.; Ohio Auto Sales, Inc.; and Main Street Motors, Inc.

Their combined figures indicate that from July 1, 1950, to September 18, 1950, 1,831 used vehicles were sold. In an approximately equal period from September 18, 1950, through November 30, 1950, following regulation W, they transferred 972 cars, a decrease in business of 47 percent. Where these concerns were selling in the aggregate 23 vehicles per day, they now are reduced to 13 vehicles per day.

3. Cleveland firms financing the sale and purchase of used automobile report losses in volume varying from 11 to 30 percent subsequent to regulation W.

Regulation W undoubtedly intended and anticipated the decided reduction in the sale and purchase of used transportation vehicles, which though confined to a local community, undoubtedly reflects a national situation. But the proponents of the regulation could not have anticipated the disastrous impact upon the used-car dealer and the segment of our population who constitute the purchasers and consumers of used automobiles.

The used-car dealer, by virtue of the regulation, finds himself deprived of a market for his merchandise and, as a result, has suffered a serious loss of income and reduction in the market value of his inventory. His costs of operation remain constant and are not affected by the volume of his business. His rent, salaries, maintenance, and depreciation continue unaffected by Government regulations of his means of producing income. Inventories costing the used-car dealer $100,000 prior to September 18, 1950, are now worth $70,000. The Government has thus deprived the used-car dealer of his income, his market, and the value of his inventory without compensation or remedy. Normally, when this Government deprives its citizens of their property rights it makes provision for repayment of property losses either directly, or by grants of subsidy. Through regulation W, the Government has taken property from the used-car dealers and has failed to compensate them. The used-car dealers of Cleveland submit that this action constitutes confiscation of property, is discriminatory, and arbitrary.

The great bulk of our population require cheap, safe, adequate, and rapid transportation to their places of employment as well as to shopping centers for purchases of necessities and for such recreational and social activities as are necessary to a well-balanced economy. An analysis made by the used-car dealers of Cleveland indicates that the average purchaser has an income of approximately $300 per month. This modest income removes him from the new-car market, leaving him only the alternative of purchasing a used car or employing public transportation. Public transportation in our major cities is already vastly overburdened and understaffed, ill equipped to provide for the needs of the community. This situation is especially true in times of national emergencies. The average citizen is thus unable to buy new transportation and must suffer the inconvenience and waste of time of public transportation unless he is able to buy a used automobile.

It is not a function of Government to deprive this large mass of the American community from adequate transportation, but it is the Government's obligation to assist its citizens or not to impede them in their quest to procure necessary transportation.

The automobile, and particularly the used automobile, is no longer a luxury but a necessity to the American community. The average man, under regulation W, has been priced out of the used-car market, thus leaving the purchase of such durable goods to the upper income group. The Government is, therefore, discriminating against those persons who most need to be protected. As a result, funds that would normally go into the purchase of such transportation are being diverted to the purchase of nonessential luxuries. Thus, contrary to the purpose of the regulation, necessaries are being supplanted by luxuries. luxuries.

Since regulation W precludes the average man from purchasing a new or late model used automobile, his only recourse is to buy a much older and cheaper vehicle. These older automobiles are generally unsafe, in poor condition, and require constant repair.

The effect of the regulation, therefore, is to protract the lives of older vehicles and maintain on our streets old, dangerous, and dilapidated autos. These vehicles will require constant repair and thus will make great demands upon our supplies of tires, parts, and accessories which are intended to be conserved. Thus the intent of the regulation will be frustrated.

The Government will note that the late model used auto is an item of merchandise which is in existence. Its sale and distribution does not and cannot affect the use of essential materials or manpower which must be devoted to other purposes.

CONCLUSION

A realistic approach to consumer credit restrictions indicates that regulation W as presently constituted does not operate, so far as the used-car dealers are concerned, to conserve materials or manpower. It has had no real effect on the inflationary tendencies of our economy, but has succeeded only in a seizure of private property without compensation. It has unnecessarily decreased the income and market of one class of our citizenry and has thus resulted in discrimination beyond a reasonable necessity. In order to encourage compliance, the regulation should be altered or amended to provide at least a 24-month period in which installment payments may be made, and a reduction in the amount of the down payment required to a minimum of 25 percent.

The used-car dealers of the city of Cleveland, as well as other used-car dealers, have large investments in their community. They stand ready to comply with all the laws and regulations of their Government, but strongly urge a reconsideration of regulation W to the end that its discriminatory and confiscatory provisions will be ameliorated.

CHICAGO, ILL., *November 28, 1950.*

Mr. JOSEPH P. MCCARTHY,
Washington, D. C.

DEAR MR. MCCARTHY: Please be advised that I am sending you under separate cover the results of a survey search which we took from the members of our association regarding regulation W.

I sincerely hope that this information will be of some assistance to you in the coming hearings, and I would greatly appreciate your returning this material to me when you have finished with same.

How do things look? How do things look relevant to regulation W? I would deeply appreciate your keeping me posted on developments so that I can pass the information on to my members.

Sincerely yours,

GREATER CHICAGO USED CAR DEALERS ASSOCIATION,
MILTON T. RAYNOR, *General Counsel.*

(The questionnaires referred to may be found in the files of the committee.)

STATEMENT OF SOL STEELMAN, PRESIDENT OF THE GREATER CHICAGO USED CAR DEALERS ASSOCIATION

Gentlemen of the committee, my name is Sol Steelman. I am president of the Greater Chicago Used Car Dealers Association and I am here representing the used-car industry in the Greater Chicago area.

We preface the remarks contained in this presentation with the statement that we have taken into full cognizance the grave crisis in which our great country now finds itself as well as the serious responsibility of each and every citizen in dedicating himself to the preservation of those fundamental rights we prize so highly.

We graciously acknowledge the tributes which have been here made to the automotive industry for its vast contribution toward the last war effort. Lest that effort be minimized in anyone's mind, let us remind you that during the last struggle the manufacturers of automobiles completely converted their mass production lines from motor vehicles to the instruments of war, and not a single motor vehicle was produced in this country during the years of 1943, 1944, and 1945. As a consequence, the franchised new-car dealer completely converted his operation to that of servicing automobiles, and, in some few instances, to the buying and selling of used cars.

This virtually thrust the entire burden of civilian defense transportation onto the shoulders of the used-car dealer—who accepted the challenge vigorously and performed the task in an efficient and miraculous manner. We use the word "miraculous" advisedly, since it was felt in many quarters that only through a miracle could the job be accomplished. Yet it was done and done well.

As we all now know from past experience, the last war greatly accelerated the decentralization of industry. Automobiles were needed by defense workers to get to and from work, sometimes traveling 70 to 80 miles per day. This required the availability of safe and economical transportation for the defense laborer. Suffice to say, our war workers were kept rolling on wheels throughout the conflagration and peak production was maintained.

This entire problem was further complicated and emphasized by the housing shortage which existed during the last war, and still exists. This caused the laborer, in many instances, to live far from his place of employment despite the fact that the plant in which he worked may have been located in the heart of industrial areas in our major cities.

The magnitude of our job was further increased by the problem of relocating vast numbers of vehicles from certain areas to new territories where they were in desperate need. Localities which were extremely small in population suddenly sprang into densely populated areas because of the introduction of tremendous defense production within its confines. There were inadequate stockpiles or inventories of motor vehicles in that surrounding locality. It therefore became imperative to move large inventories of automobiles from established markets to these newly created markets—a matter which was vital to production and which had to be done quickly and efficiently. Again the job was accomplished.

We, the used-car industry, stand ready to vigorously accept this new challenge, and we once again assure our Nation that civilian defense transportation will be handled even more expeditiously and efficiently than in the last war, since we now have the benefits of considerable experience to add to our reservoir of ability, sincerity, and energy. The above is said with the full knowledge that the demands of the present crisis will far exceed those which were in existence throughout World War II.

However, the willingness of our industry to assume its full share of the burdens which a wartime economy impose upon it does not necessarily carry with it the corollary that we should be willing to assume unjustifiable burdens dreamed up by economists using fallacious and unrealistic theories as a foundation for their imposition. Regulation W, and the amendment thereto, allegedly, or were intended, to perform two purposes and functions, namely: (1) free labor and materials for defense, and (2) check inflation. It accomplished neither with relationship to our industry.

Since we are concerned only with used automobiles, the matter of labor and materials is not involved. Our product has been produced, and is already in being.

As to the second point, relevant to inflation, we were faced with the problem of a rapid deflation, a declining market which started in the month of August 1950. This fact is not disputable. All of the statistics bear this out. The promulgation of regulation W on September 18 merely accelerated this deflationary trend. The spiral was working in reverse, and continued throughout the period from September 18 to October 13.

Despite this economic fact, the Federal Reserve Board announced amendment I, to become effective on the 16th, further restricting maturities on installment contracts to 15 months. The Defense Production Act of 1950 never intended that governmental instrumentalities be used to either precipitate or perpetuate a deflationary condition in any one industry. Yet, this was done.

As part of this deflationary trend, not only were the prices of automobiles on used car lots rapidly declining, but correspondingly, the moderate wage earner was undergoing the same experience. Were it not for regulation W, the value of his car, represented in dollars and cents, would have leveled off and remained constant, subject to normal depreciation, thereby preserving the value of the most important piece of property the worker usually owns. To the worker, his savings, accumulated through years of toil, had been translated into a motor vehicle. When the Federal Reserve Board swung its ax against the automobile industry, it chopped off over 20 percent from the savings accounts of the laborer.

We admit the action was not as direct as stated above, but the results were the same. The Federal Reserve Board would never dare issue an order confiscating 20 percent of the savings accounts of the lower income bracket wage earners for fear the small man would rise as a unit to destroy the scythe which was arbitrarily and discriminatorily cutting him down. Yet, surreptitiously and by indirection the same thing was done. The repercussions should have been the same, but the public has been fooled by the subtleties used in invoking the present regulation W. Mr. Public will become aware only when he brings his car into a dealer for sale or for trade-in purposes—then he will find out that part of his property has been confiscated unbeknown to him, not only without due process of law, but without his even being told that he was being so gloriously taken. Another interesting economic phenomenon is taking place because of the invoking of regulation W. Although our industry has been in a steady deflationary spiral for the past 4 months, within the last 20 days prewar cars, those 1942 or older, many of them unsafe and needing constant repairs and the replacement of parts because of their vintage, parts which must be conserved for the war effort, have begun to rise in price. Thus again the lower income bracket wage earner gets the short end of the stick. The answer to this fact is clear: Despite regulation, we are still a country operating under the fundamentals of free enterprise, and as a result the laws of supply and demand still apply. The modest wage earner has been virtually priced out of the automobile market. There is left available to him for purchase only prewar cars. He can't afford anything better out of his wages because of the short maturity period.

Consequently this whole segment of the consumer market has been limited to the purchase of prewar automobiles, creating a vast new market for these cars—a market which did not heretofore exist since it was spread over 1946, 1947, and 1948 automobiles as well. This concentrated demand on this prewar type of car has caused the prices of those vehicles to rise, therefore doubly penalizing the small wage earner.

Firstly, the worker must now buy a prewar car whereas before the regulation he could have purchased a later model car, which was safer and more economical since it required less repairs and replacements. Secondly, he must pay more for the prewar car than its normal value would dictate were it not for the regulation.

In closing we would like to point out that current statistics indicate that since September 18, 1950, the date regulation W came into being, the savings accounts of laborers, or of all of the people of the United States, have not appreciably risen. Similarly, the purchase of war bonds has not substantially increased. Since regulation W has curtailed the spending power of the consumer for necessities, such as used cars, where is that money now going? Unfortunately, the intent of regulation W has been dissipated, since obviously the money is being spent anyhow—only now it is going into the purchase of luxuries, over which there are no credit controls. This is even worse than robbing Peter to pay Paul. In this case, both Peter and Paul are being robbed simultaneously.

We sincerely request that this committee urge the elimination of credit controls in their entirety. However, if this committee is convinced that free enterprise must be sacrificed on the altar of war emergencies, then we urge a relaxation of the present harsh controls to the point that time-payment contracts have a maturity of 24 months.

Mr. CAIN. I believe we can conserve time, and I know we are going to attempt to answer all of the questions in direct testimony here, if the committee would and does feel disposed to withhold their questions until after both of us have testified—I will sum up after Mr. Wilson—I think it will expedite the matter and at the same time keep the record very clear. That is just our request.

At this time, I would like Mr. Walter Wilson, president of the National Used Car Dealers Association, to present the technical side of this picture of the sale of the used cars as affected by regulation W.

Representative BROWN. All right, Mr. Wilson; you may proceed.

STATEMENT OF WALTER WILSON, PRESIDENT, NATIONAL USED CAR DEALERS ASSOCIATION, DALLAS, TEX.

Mr. WILSON. Thank you. Mr. Chairman, gentlemen of the committee, I am Walter Wilson, of Dallas, Tex., where I have been engaged in the used-car business for many years.

My appearance here today is in my capacity as president of the National Used Car Dealers Association, and I am authorized to speak on behalf of the entire membership of that organization.

I should like to preface my remarks by extending assurance that used-car dealers throughout the Nation are prepared to assume their full share of the burdens, responsibilities, and sacrifices that all our citizens must willingly bear in these critical times. We do feel, however, that the existing restrictive amendment No. 1 to regulation W, as it affects the sale of used cars, does not accomplish the purpose for which it was intended. On the contrary, we consider it discriminatory in its application to our industry and it is deemed by us to be confiscatory insofar as the public is concerned.

The Federal Reserve Board has stated that the restrictions are accomplishing their purpose because the rules have lessened demand and, by virtue of that condition, have caused a reduction in the price of used cars more in line with what the Board considers they should be as related to new cars. Was it the intent of Congress that the purpose of regulation W should be to reduce the price of used cars? If that was the purpose of the regulation, then I submit that the Board of Governors have changed their minds, because they announced originally that the purpose was to check inflation and to free labor and material for the defense effort. We are not only in entire accord with that laudable objective, but stand ready and willing, as responsible used-car dealers and citizens, to make every sacrifice possible to attain it. But let us observe whether or not that is or has been the case insofar as justifying the imposition of more restrictive rules than those which existed prior to the promulgation of amendment No. 1, when purchasers were given 21 months within which to pay off balances due.

There are approximately 34,000 used-car dealers operating in the United States at this time—at least, there were that many prior to October 16, 1950. With a view of conducting an intelligent survey of their experiences under regulation W, we selected 15,000 dealers to whom we sent questionnaires in which the following questions were asked:

Question No. 1: "What percentage of your sales are normally financed?" Replies showed that such type sales averaged 71.1 percent, with over 38 percent placing the figure between 80 and 95 percent.

Question No. 2: "Normally, what were your predominant terms of finance before regulation W first became effective in September 1950?" Responses showed that on 1949 and 1950 models the down payment averaged 29.13 percent, with the balance extending over 24.7 months. On 1946, 1947, and 1948 models the down payment averaged 29.87 percent with balances over 21.60 months.

On prewar models the down payment averaged 32.01 percent, with balances over an average term of 14.11 months.

Question No. 3: "What percentage of your customers indicated at time of purchase that they used their car primarily for business, which includes going to and from work?"

Replies indicated that the average here was 87.16 percent.

Question No. 4: "What is the trend of used car prices in your area?" To this query the answers were that, since regulation W was imposed, the average decrease as to models was as follows:

	Percent
1950 models	23.62
1949 models	21.03
1948 models	19.03
1947 models	17.56
1946 models	16.29

But they presented a different picture as to prewar models, with over 30 percent indicating an average increase of 15.52 percent.

I would like to deviate slightly here and refer to a situation that we know has developed since this test was made. You notice there that prewar models went up 15.52 percent, while the others were going down.

I would like to refer to Mr. McCabe's speech at this point, where he said:

> Good usable cars for performing a great portion of the daily travel of the public continued to be available under regulation W on purchase terms of about $25 a month, or less. These are the cars which are customarily bought and sold by a large number of our working population who are looking for transportation and not for the latest style gadgets.

I would like to point out that while the other cars were going down, those prewar models, or $25 a month automobiles, were going up. In our opinion now, since we know that they have gone up much greater than the 15 percent, these cars which Mr. McCabe referred to in his speech there have advanced from two to three hundred dollars since regulation W. Consequently, the amount of the down payment today is almost as much as the total selling price of the car prior to regulation W.

Representative Brown. Now, what cars were those? Prewar cars?

Mr. Wilson. That is right. Well, I suppose. He didn't qualify. He was speaking of the automobiles that could be bought for $25 a month.

Senator CAPEHART. You say they went up in price. Why?

Mr. WILSON. My answer to that would be that, of course, they didn't come under regulation W; and we have a certain class of buyers that are limited to the amount they can pay so they are forced to buy whatever is available on those terms. Consequently, those prices, I guess, are justified.

Senator CAPEHART. You say they are not under regulation W?

Mr. WILSON. No. The regulation—my understanding of it—doesn't cover automobiles from 1942 models back; except the third down payment does apply.

Senator CAPEHART. But the terms do not apply?

Mr. WILSON. I think that is correct.

Senator CAPEHART. Doesn't regulation W cover the sale of all automobiles?

Mr. WILSON. You do not have to use the guidebook. We cover that a little bit further down in here, where you may be forced to pay as much as 50 percent down on some of those automobiles; but you can finance two-thirds of the sale price of those 1941 models back, 1942.

Senator CAPEHART. I think you have a point there. Of course, Mr. McCabe was trying to show that the lower-price cars, the used cars, had gone down in price, I believe he said.

Mr. WILSON. I appreciate that.

Senator CAPEHART. Now you say they have gone up. He says that that is the class of cars that are bought by the working people.

Mr. WILSON. That is right.

Senator CAPEHART. Now, he said they went down in price. You say they went up in price.

Mr. WILSON. Well, I don't know that he said that that particular classification of cars did go down.

Senator CAPEHART. But you say they have gone up in price.

Mr. WILSON. Correct.

Senator CAPEHART. Now, as a result of regulation W, if that class of car, which Governor McCabe, himself, admits are used by the great majority of workingmen, have gone up in price, you might well have a point. I want to know why did it go up, as a result of regulation W?

Mr. WILSON. I know our statistics and sampling show they did go up. That was the answer sent in. I know on the firing line, at our used-car places, that these automobiles have gone up. In fact, they are much above, as I quoted a few minutes ago, the 15.52 percent now.

I think I covered that. The increase of demand and the fact that they were in the classification that more people could buy and pay for, I think, would automatically give you the reason why they did advance.

Senator CAPEHART. In other words, they were at a price and on monthly payments that more people could pay for them and, therefore, more people wanted to buy them. Is that the reason they went up?

Mr. WILSON. That would be my impression of it; yes, sir.

Senator CAPEHART. In other words, they couldn't make the high monthly payments on new cars or better class used cars, but they could pay $25, $30, or $40 a month. That is the reason why they went up.

Mr. WILSON. That class buyer—I don't know how you want to put that—but we have people that have always bought automobiles. Say, their budget would only permit $25 or $35 a month. They couldn't buy a new automobile unless they could get it for nothing down and scattered out.

Senator CAPEHART. On a $450 car, he pays a third down; that leaves $300 to be financed. On 15 months, that would be what, $25 a month? There are more people with $25 a month than there are with $100 a month.

Mr. WILSON. My point there—I think you have caught the point already, however—is not through any effort of the Board, I don't mean to imply that; but through this situation, that those automobiles could have been purchased prior to the regulation, the full purchase price, for much less than they can now; so in some instances, the $25 a month they pay now would be in addition to what they would have had to pay before that.

Senator CAPEHART. You said you sent a questionnaire to 15,000 people, 15,000 dealers. How many did you hear from?

Mr. WILSON. I don't know those statistics, how many we got back.

Mr. CAIN. About five or six hundred. It was from a well-scattered area, all over the whole area.

Mr. WILSON. A sampling test.

Senator CAPEHART. Pretty well scattered all over the United States?

Mr. CAIN. All over, in every section.

Mr. WILSON. Any more questions?

Representative BROWN. All right, you may proceed.

Mr. WILSON. Thank you.

In question No. 5, dealers were asked to make a comparison in sales. In comparing sales between September 18, 1949, and October 16, 1949, as compared with the same period in 1950, dealers reported sales were down 47.77 percent.

And in a comparison of sales between October 16, 1949, to November 16, 1949, with the same period in 1950, dealers reported that sales had decreased 64.91 percent.

If I may deviate again, that is completely in accord with the chart which has been furnished by the Federal Reserve Board. The only point I would like to make there is that you can readily see that the situation was well on the way to correcting itself.

Here [indicating] is the peak which represented about 12 or 15 days of the scare buying that we had there, not only in automobiles, but in sugar and items that were on short supply in the last war. There was a scare buying, as indicated by their chart.

It is also indicated by their chart that the sale is dropping very rapidly there; and on September 15, it was down almost back to the level of prices that prevailed prior to the Korean situation. The 21 months went on then; and at the time that the 15 was slapped on, they were well below the prices that existed prior to the Korean situation, according to their own chart.

Needless to say, the question concerning comments by both the dealers and their customers brought bitter criticism against amendment No. 1, due to the fact that the original rules made effective September 18, 1950, had proved to be entirely adequate for their purpose.

Now, for the record, let us see who really suffered this loss in value of used cars, averaging over 20 percent. In Chairman McCabe's speech of September 21, 1950, delivered in Boston, Mass., after outlining what had to be done to check inflation, he said, "That means we must cut down the spending power of all but the lowest income group." In that behalf, I am reminded of the comment made by a candidate for public office, when he said, "I love all the poor people because there are so many of them." It is an elementary fact that by far the majority of the low-income groups have their greatest asset invested in their automobiles. The automobile serves many purposes besides providing transportation only. It represents ready collateral for the many emergencies which arise constantly in the normal life of a family unit.

Out of the 34,000 used-car dealers in the United States, over 95 percent have less than $10,000 invested in their business. They are, for the most part, able to carry only a small number of cars in stock for sale. Their profits depend upon the turn-over of stock. It is absolutely ridiculous for anyone to say there is a large profit in the sale of the average used car. Regardless of whether the price be high or low, the margin of profit remains the same to the dealer. Of course, the dealer, when caught flat-footed with whatever stock he had on hand when the October 16 amendment was, without notice, imposed, suffered some loss in the sudden drop in value of the car, but not nearly as much as one would suppose. He didn't have to be overly brilliant to foresee this immediate drop in value, and with over 75 percent of his sales involving the taking in of trade-ins as all or part of the down-payment on his sale, you can bet your life, if he was any businessman at all, he didn't allow the value of the trade-in to exceed the drop in market value. So who suffered this loss in value but the public, itself, and what group suffered the greatest injury? I wonder how those millions of workers who have as their largest investment an automobile would react if, instead, the value of that automobile had been invested in a savings account and the Federal Reserve Board suddenly announced that it had been very successful in taking 20 percent of it away from them? It is probably just as well that the laboring man doesn't fully realize what has been done to him because I am afraid that public indignation would cause the Federal Reserve Board to hesitate in publishing its recent report and, I believe, would make it regret the course it has followed.

The average used-car dealer is just about out of business because of this latest action of the Board. Of course, we would not complain as patriotic citizens if the Board had carried out the intent of Congress. But it failed to take into consideration the fact that when amendment No. 1 to the regulation was put into effect it automatically placed a price ceiling on used cars. We must realize that used cars are normally sold at the market value. Their price in an unregulated market is not fixed by the producer as are new cars and other consumer goods. The terms of the installment sale is set under regulation W by recognized guide book values. So actually the Federal Reserve Board has placed a credit ceiling on used cars. The used-car industry is the only segment of the different commodities coming under the rules of regulation W that has been placed under the credit ceiling. Radios, televisions, real estate, new automobiles, et cetera, may be financed from 66⅔ of their selling price to as high as 90 percent of their selling price. Such is not the case with the used car.

The regulation provides that a used car can only be financed for two-thirds of the appraisal guide book value of the particular year, make, and model of automobile. Bear in mind that this guide book is made up by striking the average value of the particular car. In other words, the old wreck that is sold to the junk dealer, the high-mileage automobile and the low-mileage car, are thrown into one classification and the average sale price for the lot becomes the ceiling. Consequently the customer buying the low-mileage automobile may be required to pay as much as 50 percent down instead of the one-third down payment required on a new automobile, for if the selling price of the clean car is $200 above the average, that amount must be, according to the terms of regulation W, added to the down payment. Consequently, whether the dealer wants to increase the price or not, he is not able to do so because he must sell on the basis of the determined value specifically set forth in the guide book. He may go down in price, but he cannot go up under regulation W.

It must be realized by the Board and other agencies of Government that the sale of used cars calls for an entirely different method of merchandising than applies to the sale of new cars.

Amendment No. 1 to regulation W was certainly not necessary nor justifiable in preventing the spiraling rise in prices, which, of course, is the main factor in any inflationary economy.

Certainly it cannot be argued successfully that amendment No. 1 served any purpose in freeing labor and material for the defense effort. The material in a used car is already expended insofar as the defense effort is concerned, and over 90 percent of the used-car dealers have only a two-man operation. It is conceded that the manpower involved would be entirely negligible when it is remembered that most used-car dealers are men well beyond draft age.

Gentlemen, the establishment of regulation W on September 18, 1950, which permitted balances on purchases of automobiles to be paid off in 21 months, served the purpose of checking any possible contribution to further inflation through the sale of used cars. Statistics are clear and convincing on that point. Amendment No. 1 is nothing more or less than a discriminatory regulation against the low-income group; and it certainly has been and is a confiscatory measure insofar as the public is concerned.

The association's general counsel, who will complete the testimony on behalf of the National Used Car Dealers Association, will present specific recommendations to this committee as to how the injustices complained of can be corrected in the public interest.

Thank you.

Representative BROWN. I recognize Senator Capehart now.

Senator CAPEHART. Well, the question I wanted to ask was this: You say your general counsel is going to cover it, but I think we might like to hear from you; what do you recommend be done?

Mr. WILSON. In what instance?

Senator CAPEHART. Well, what terms do you recommend?

Mr. WILSON. Well, I appreciate the recommendation that this committee had made to the Federal Reserve Board. Any relief we can get at all will be appreciated.

Senator CAPEHART. Let me put my question. What do you think would be fair and equitable, fair to the buyer, fair to the dealer, and fair to the Federal Reserve Board in trying to check inflation? What terms do you recommend?

Mr. WILSON. Well, in order to answer that, I would have to go against our theory, and the theory is that we don't have an inflationary situation so far as used automobiles are concerned. That could go into quite a lengthy discussion.

Senator CAPEHART. I don't care what your answer is, excepting you are in the business; you are the president of the association.

Mr. WILSON. That is correct.

Senator CAPEHART. You know your business; I do not. You are objecting to what the Federal Reserve Board did. What do you recommend that the Federal Reserve Board do? I think that is the way to get at this answer. They did one thing. You think it is wrong. What do you think they ought to do?

Mr. WILSON. We are not asking that they abolish their regulation W completely. We are asking for relief under the regulation.

Senator CAPEHART. What do you think the relief should be?

Mr. WILSON. Certainly not less than 24 months, in my opinion, would be adequate.

Senator CAPEHART. In other words, you recommend a third down and 24 months on all types and kinds of cars?

Mr. WILSON. Yes.

Representative BROWN. That is the amendment you prepared?

Mr. WILSON. Yes, sir.

Senator CAPEHART. Mr. Chairman, I have a wire here they wished made a part of the record from the New York Used Car Dealers Association, Max J. Bloom, secretary.

Representative BROWN. You might read it, Senator.

Senator CAPEHART. Why not just read the part that he recommends, Mr. Chairman.

Representative BROWN. All right.

Senator CAPEHART (reading):

> This regulation is both discriminatory and arbitrary and urge its elimination. We further urge as an alternate the following finance plan: 15 months on prewar models, 18 months on 1946 and 1947 models, 21 months on '48 and '49 models, and 24 months on '50 and '51 models. We kindly ask that this statement be read into the record of your hearings.

Mr. Chairman, may we have placed in the record the entire wire?

Representative BROWN. The telegram will be inserted into the record.

(The telegram referred to follows:)

NEW YORK, N. Y., *December 8, 1950.*

Hon. BURNET MAYBANK,
Chairman, Senate Banking and Currency Committee, Senate Building:

DEAR SENATOR: A survey of the New York State dealers regarding amendment to regulation W is showing economical catastrophe to both automobile dealers and lower-income wage earners who are in need of good transportation for defense work and business. This amendment is completely unnecessary as an anti-inflationary measure since the market had been declining prior to the promulgation of the regulation causing inventory price decline of more than 30 percent. This curb is without purpose except to serve the wealthy and cause panic amongst buyers with small incomes and who are in need of transportation and who do not have cash reserves. This is indicated by the present reduction of used-car buying of between 50 to 65 percent from normal purchasing power. Past experience and records indicate this type of buyer as needing longer terms of financing to help stabilize our national economy. This regulation is both discriminatory and arbitrary and urge its elimination. We further urge as an alternate the following finance plan: 15 months on prewar models, 18 months on 1946 and 1947 models, 21 months on 1948 and 1949 models, and 24 months on 1950 and 1951 models. We kindly ask that this statement be read into the records of your hearing.

NEW YORK USED CAR DEALERS ASSOCIATION,
MAX J. BLOOM, *Secretary*.

Senator CAPEHART. You recommend straight 24 months, rather than what these gentlemen recommend?

Mr. WILSON. I might say in that connection, we have all kinds of suggestions from different dealers over the country.

Senator CAPEHART. Yes; I appreciate that.

Mr. WILSON. The association as a whole wants to be fair about the thing. There could be a sliding scale. It would show, according to our own charts, a sliding scale, if such was to be worked out and wouldn't be too involved, would be all right.

Senator CAPEHART. You understand I do not know whether the Federal Reserve Board is going to change their rule or not; but we are holding hearings for the purpose of gathering information for them; and we hope they will pay some attention to it.

That is why I asked the question as to just exactly what do you, as president of the National Used Car Dealers Association, recommend that they do? I think you ought to have a recommendation.

Mr. WILSON. Yes; the recommendation is here.

Senator CAPEHART. Under the law, you see, they are required to consult with you before promulgating any of these regulations. Now, in consulting with you, I think it was the intention of the law that you were to make recommendations.

Mr. WILSON. Yes.

Senator CAPEHART. That you were to make recommendations as to what you thought should be done. I think it was the intent of the Congress if, in the opinion of the Federal Reserve Board, that was the thing to do, they should do it. At least it was the intent of Congress if, in the opinion of the Federal Reserve Board, that was

Mr. WILSON. The recommendation is here.

Senator CAPEHART. That is why I asked you the question. Now, just what are your recommendations?

Mr. WILSON. Would you like me to read it off?

Senator CAPEHART. Yes.

Mr. WILSON. At this time?

Senator CAPEHART. Yes.

Mr. WILSON. It is a little dim. This is about the third or fourth copy and it is a little difficult to see.

Representative BROWN. Here is one you can read.

Mr. WILSON. Thank you. This is the amendment proposed by the National Used Car Dealers Association:

> *Provided, however*, That the installment terms on the sale of used cars shall not be made more restrictive than one-third down payment of the sale price and twenty-four months to pay the balance: *Provided*, That the installment terms shall never be made so restrictive as to affect the ability of the low-income group to purchase said used cars on installment basis. That said price controls as authorized in said Act shall never apply to the sale of used cars.

Senator CAPEHART. What do you mean by the last sentence—

> That said price controls as authorized in said Act shall never apply to the sale of used cars.

Mr. CAIN. Senator Capehart, may I interrupt? You see, I intend to cover every bit of that. When he speaks and I speak, we speak as one voice. We don't speak as separate voices at all. I have all those answers for you; I will answer everyone of them, if you please.

Senator CAPEHART. I have great respect for you as general counsel; but being a businessman, I would likewise like to hear from the man who is on the firing line selling the cars, that is in the business, because he ought to know more about it than you do.

Mr. CAIN. Senator Capehart, the National Used Car Dealers Association, in collaboration with the State used-car dealers, and used-car dealers all over the United States, wrote that amendment. I didn't write it. That is what we are talking about.

Senator CAPEHART. As far as I am concerned, I understand the problem at the moment. I understand who is hurt. I understand the whole thing. I think we are down now to the problem of what we, as a committee, should recommend to the Federal Reserve Board, and what you, as representing the used-car dealers, want to recommend to them.

Mr. WILSON. Our thought, if I may add to that, on the 24 months is this: After all, a used automobile has a certain collateral value. Then the sliding scale would be more or less taken care of by the loan value of the car.

Senator CAPEHART. Do you have any recommendations on the changing of the terms on new cars?

Mr. WILSON. No; I haven't.

Senator CAPEHART. What percentage of your 34,000 dealers handle new cars?

Mr. WILSON. I don't have the statistics showing that, sir.

Senator CAPEHART. But it is a big percentage; is it not?

Mr. WILSON. By number of dealers, do you mean?

Senator CAPEHART. Yes.

Mr. WILSON. Or volume of business they do along that line?

Senator CAPEHART. Every new-car dealer handles used cars; does he not?

Mr. WILSON. I wouldn't say every one, no.

Senator CAPEHART. Does not every new-car dealer trade in used cars?

Mr. WILSON. I don't follow your question there.

Senator CAPEHART. My point is, every new-car dealer is, likewise, a used-car dealer.

Mr. WILSON. Oh, that way. I thought you had it reversed.

Senator CAPEHART. Do you handle new cars?

Mr. WILSON. Yes, sir. Nonfranchise, however.

Senator CAPEHART. You are both a new- and used-car dealer?

Mr. WILSON. That is correct.

Senator CAPEHART. What do you recommend the terms be on new cars?

Mr. WILSON. I think our maximum, our 24, would adequately take care of it. The higher price, and the lower price back of it would be more or less adjusted by its collateral value.

Senator CAPEHART. There has been some suggestion that the terms ought to be 21 months.

Mr. WILSON. Well, I say, a maximum of 24—21.

Senator CAPEHART. The original order was 21 months?

Mr. WILSON. That is correct.

Senator CAPEHART. As I gather from the testimony here, without consulting with you gentlemen, meaning the industry, they changed it to 15 months?

Mr. WILSON. That is correct, sir.

Senator CAPEHART. Were you satisfied with the 21 months?

Mr. WILSON. I could only answer that from an individual's standpoint.

Senator CAPEHART. It certainly would be better than 15.

Mr. WILSON. Pardon?

Senator CAPEHART. It certainly would be better than 15 months.

Mr. WILSON. Yes.

Representative BROWN. This is off the record.

(Discussion off the record.)

Mr. WILSON. I hope I qualified that by stating, it shows in our sampling here, that even when there were no restrictions whatsoever, that our older models only required 14 months. If you have 24, that doesn't mean that you are going to use it. It is our feeling that the collateral value of the older automobiles would take care of itself without specifically stating whether they should be financed over a period of 12 months, 15 months, 18 months, or what have you. That was my thinking along that line.

Representative BROWN. All right, Senator.

Senator CAPEHART. I have no more questions.

Representative BROWN. I recognize Mr. Patman now.

Representatitve PATMAN. Did the Federal Reserve Board consult your association before imposing the first regulation?

Mr. WILSON. Not to my knowledge, sir.

Representative PATMAN. You were president of the association; were you?

Mr. WILSON. I was not. I have only been president since November 10.

Representative PATMAN. Was Mr. Cain your counsel at that time?

Mr. WILSON. Not of the national association.

Representative PATMAN. Who could tell us about that? Who knows whether or not you were consulted?

Mr. WILSON. Mr. Hayward could tell us.

Mr. HAYWARD. Mrs. Corell, the executive secretary, is here. She could answer that question.

Representative PATMAN. Is he going to testify?

Mr. HAYWARD. No. It is she.

Representative PATMAN. Mr. Chairman, may I ask her that question?

Representative BROWN. Yes.

Representative PATMAN. Will you stand up, please? You are the secretary of the association?

Mrs. CORELL. Yes, sir.

Representative PATMAN. Was your association consulted before the imposition of this first order?

Representative BROWN. Give your name for the record.

Mrs. CORRELL. Margaret Corell. Our counsel at that time was Mr. McCarthy, here in Washington; and I think he would be better qualified to answer that.

Representative PATMAN. All right, thank you. Is he here?

Mr. CAIN. He will be here. I can tell you, though, that they were consulted before the regulation was imposed at all.

Representative PATMAN. On the first regulation?

Mr. CAIN. On the first regulation.

Representative PATMAN. Were you consulted before the imposition of the second regulation?

Mr. CAIN. No, sir; not whatsoever.

Representative PATMAN. Was any excuse given to you as to why you were not consulted?

Mr. CAIN. Yes, sir. Mr. Evans, himself, said that he was trying to prevent inflation and not create it; that a notice of hearing to see whether or not they should be increased would have created an inflationary situation; and that was the reason why they didn't give the notice.

That statement was made in the presence of Mr. Solomon, Mr. Lewis, and Mr. Pauley on November 1, 1950.

Representative PATMAN. Since Mr. Cain is general counsel and will testify later in detail, I will forego asking any more questions at this time of the president.

Representative BROWN. Thank you very much, Mr. Wilson.

Who is your next witness, Mr. Cain?

Mr. CAIN. I will wind this up.

Representative BROWN. All right.

STATEMENT OF FRANK CAIN, GENERAL COUNSEL, NATIONAL USED CAR DEALERS ASSOCIATION—Resumed

Mr. CAIN. Gentlemen of the committee, I have filed a formal statement. I am not going to talk from it. I will cover the exact substance in that statement; but I prefer to talk to you rather than to read the statement, itself, with your permission.

Representative BROWN. Your statement is already filed?

Mr. CAIN. Yes, sir; the statement is filed. I want to take the opportunity, on behalf of the National Used Car Dealers Association, on behalf of the used-car dealers of America, of thanking you gentlemen for giving your time and consideration to this matter, and giving us a public forum at the time when it has been so urgently important.

I, myself, am a veteran of the present World War II, that continues to go on. I have the distinction, some way or the other, of being about the only person that I have ever heard of that belongs both to the Army Reserve and Navy Reserve, so I imagine my civilian life won't be very long; but I want to talk to you about something I feel is extremely important in covering and going into this used-car matter.

We are mindful of the fact that we face a full mobilization, and the terrific responsibility of building up a war machine second to none. In doing so, though, we also are mindful of the fact that we create in this country one of the most serious economic situations that has ever gone before.

There has never been, in the history of this world, a country that has survived that situation in their economy. Every economy has been destroyed by virtue of it.

We know that the destruction of this country can come right now, actually from within. The danger in this country is as great within, and probably greater within, than it is without right at the present moment.

Now, a small man, as I am, if I were fighting Senator Capehart here, the only way I would try to do it would be to wear him out. I would try to get him so weak that he couldn't hit. Then I would come in with the might that I might have; and he would be finished very quickly.

Unfortunately, we have been worked into a very, very serious situation. We have found an enemy that we can't fight back. We can't fight back without becoming attached to the name of an aggressor; because this enemy has been able to effectively use other people's, as it were, war machine, and let them take the brunt of it.

Well, you can't fight a phantom enemy. At the same time, we know who that enemy is; and, consequently, we are faced with a problem we never have been faced with before. We never have been faced with this before.

Now, gentlemen, I want to tell you what we consider. We consider that there has grown up in this country a complete false sense of inflation; and particularly has there been created a false sense of installment buying.

Now, don't misunderstand me. We have no criticism of anyone. As a matter of fact, there is too much criticism going on in this country of late, and not nearly enough constructive suggestions being made. We are all just limited by our capacities, no matter what position we hold.

We are going to cover this field on the basis of used cars; and I believe that, by the time we have finished here, you will see where terms and prices on used cars have not one single solitary thing to do with inflation. I think we will definitely prove that to you.

Would you go with me back over a little history? The only way we can learn our lessons, as I see it, is to follow history, is to go back over the past and see what occurred.

Let's go back to 1927. In 1927, I was a young boy out on a highway, coming to Dallas, with a mother and sister, and holding under my arm three books: One of Abraham Lincoln, one of Thomas Jefferson, and one of Alexander Hamilton. One created a faith, hope, and determination. In the other was a free government. The other was a sound business principle.

Well, you recall that. We were enjoying a moderate prosperity, primarily brought about by new industry, new invention. All of a sudden, in 1929, there was, up on Broad and Wall Streets, a sudden explosion because there were a lot of people that were issuing paper stocks but they forgot to look behind those stocks to find out what was represented by them.

So, one day they woke up and found that there wasn't anything behind those stocks. There wasn't any product; there wasn't any value; there wasn't anything you could use. So what happened? The thing fell all to pieces.

We shouldn't have gotten scared and broken all our economy. We happened to have a genius, some people think, in the White House at that time; he had just gotten there. He did the very brilliant thing of saying we had to cut Government expenditures; and he started slashing salaries; and what he couldn't slash, he fired.

Well, employers thought that was a very salutary lesson to follow; and they started slashing salaries; and what they couldn't slash, they had to let off.

Men began to bid against one another for jobs; and I saw and you saw men working for 10 cents a hour, day in and day out. We, at that time, were all ill-fed, ill-housed, and ill-clothed people, just as they are in Europe, all over this world, and at that time nobody doing anything about it.

Why, you can even remember when they had debates, college debates as to whether or not this little government led by Mussolini was a better form of government than what we had. You remember it. I heard it. You heard it.

Now, what did we do? There were men then that were willing to do anything to get us out of that mess. Well, we found a man, a great man. I like to refer to him as a very great man, because that man could get on the radio and he could instill confidence in the people. He could say, "There is no fear, or nothing to fear, but fear itself."

He did what? He started people back to work. He started people to work; and you saw a confident people compel employers to increase salaries from 10 cents to 35 cents an hour overnight. I heard employers hollering all over the Nation, "We are going to go broke. You can't do it. We are going to go broke."

They didn't go broke, of course, because that money turned right around and bought produce. It was produce; we began to work; we had produce. We began to have shoes.

That is when installment buying caught on. Even the banks, for the first time, really woke up about that time; woke up to the fact that you could buy a home on a long-term basis, because most homes lasted 21 years; and made it possible for people to own their own homes. They found out you could sell cars on a long-term basis, because of the fact that it didn't make any difference how much it cost, as long as it had a usable value for the life of the payment.

Now, those people found that installment buying. It is the greatest blessing that the world ever had. Let me ask you gentlemen just this: What do you buy a car for? To look at? You buy a car to use. Use. That is what you do; and the use of it is the thing. The only time that product will ever be inflationary will be when you have extended a credit on it beyond its usable value. Then it is inflation, because you haven't got the product any longer, and you still have the debt. Now, when you have that, you have inflation.

Well, about that time, you will recall, we found there were a lot of theorists and day-dreamers who began to infiltrate from these colleges into this Government. They could remember the depression; they read about it, anyway; and they said that what caused the 1929 debacle was overextended credit.

Gentlemen, if you will go back and read on installment selling, you will find that the economists have always been scared to death of it, because of the fact that they say, "It will just destroy you; it is the worst inflationary thing in the world," which is the most ridiculous thing that was ever said.

So they decided that the best way to answer that, to get real security, was to create security. So what did we start doing? They sold the great President on a lot of things, a social program. Of course, some of the social program was good. It was constructive. There isn't any part of it, though, where you are giving money away and not getting produce from it that is any good; because when you give money away and you don't get anything for your money, you are just adding to the overhead and you are not increasing the usable value.

Well, we started this business. I will mention a few. We started unemployment compensation, subsidizing of goods, and expanding the Government ahead. Every time we put on a new bureau, we had to get more overhead. We still are in a production. Now that is inflation in its true sense.

In other words, what happened here was, people began to find out they could not work, not produce, and yet get paid; and there was a large segment of our population that never would work.

You remember when President Roosevelt constantly was trying to prime the pump to get started. Hhat took up to 1938. In 1938 we began, however, to have this fear of war, and we began to pick up in supplying, becoming the arsenal. We began to produce again.

In 1941, of course, we were attacked; and then at that point, of course, we were found very scarce of materials. We were attacked in very vulnerable spots; and temporary controls at that time might have been necessary to kill that hysteria. I doubt very seriously that controls, themselves, actually contributed to what they were intended to do even then, except to stop hysteria.

Now, even there, the prices soared, inspite of the fact of controls. Finally, they leveled off, of course, because we had a lack of goods and people couldn't buy anything.

However, there is one little thing that we forgot. We kept taking one side of the proposition. You remember Senator Robertson brought up this little subject the other day about having too many dollars in circulation over here and not enough goods over here. He said, "What are you going to do to take care of it?"

The way we have been doing, we start operating on the goods side and don't do anything about the dollar side. The dollar side is the thing that is the evil; and that is the place to go to work.

During World War II, when you were selling people on taking those large earnings and savings and putting them in savings bonds, do you think for one instant that you weren't creating inflation in the greatest sense in the world right then and there; because you were placing money in circulation and you didn't have any goods at all.

So what happened? When the war stopped, of course, the first thing that came off—which is just a natural thing—was wage controls; and, naturally, people went to producing goods because they needed goods; and people had money in cash savings; so they took the cash savings, and the first thing you know, the prices went up so high it busted OPA. They couldn't stand the strain of it at all.

Prices soared; they went up terrifically from 1946 up to 1948, until the supply started catching up with demand, and then leveled off. You check your charts there. Check all the data with the Federal Reserve Board. Follow each and every cycle, like savings. They all follow a cycle; all go up and down together.

That is what happened when we got out of the last war. In the first place, we put that regulation W back on in September 1948 and, of course, we went so far on the hysterical end of it, because prices had gone up so fast. We always seem to be about 4 or 5 months behind what is happening today. They got them on. It is nobody's fault, in particular. If anything, it is business' fault for not getting the actual facts right here and taking more interest in the Government itself.

Now the thing is that in 1948 they were on; and you know by the first part of 1949 they weren't even needed any longer, because they were even scared of a depression. But, all of a sudden, we caught on again; and this war began to be more and more of a scare; and we began to go up again.

Now one of the things that happened that wasn't a war scare in 1949 as much as it was a new big industry—and new industry can do a great deal to your economy—and that is, television—television jumped in here and really began to soar, and it became a great factor. The freezer industry began to catch on more and more; and it became a great factor. We learned more about freezing foods.

I wish I had a lot more time to tell you about that, too. I would tell you how to reduce prices of foods from 25 to 40 percent, also, by just using good common horse sense.

So here we come along; we get to thinking about installment buying; installment credit getting way out of hand.

By the way, I forgot one thing I covered in my prepared speech that I want to cover here. Back when I was in the Navy, I got to thinking about some of the newfangled economics that we are talking about here, about the national debt that was always hitting, and I decided to read something about economics. I got over to page 50, and this was supposed to be one of the most reputed economists of this country, and I was reading his book. Do you know what he said? He said, "If we ever reach a national debt of over 60 billion dollars, we will face economic ruin." Right then I just closed the book, because the thing was over 125 billion dollars right then, and we were still getting along fine.

What did we have for it? We had a war machine. We had one of the best war machines we had ever built up; and that was an asset. The only thing is, we let a lot of boys destroy that asset.

I saw blankets burned. I saw tractors. I had men testify there to us, and tell about good, usable material that would be good today that was run off into oceans.

That is the kind of thing that would need to be investigated pretty well. Not that you can cure the inflation, that was created by the destruction of the goods. The usable value went out faster than the debt went down.

That might be inflationary, but we can catch up with that. We are going to get more goods. We have Korea. When you get into something like that, everybody saw overnight we went into another world war. Not another one; we haven't quit this one. We just woke up. All the GI's I talked to and interviewed coming back from Germany in 1945 told me it wasn't over; they knew it wasn't over; just a vacation, as far as they could see, for the time being. That is all it ever has been.

We have a little battle which is not a little battle. One of the little boys that I raised has already been killed. So it is war, all right.

Now, we have got to build a war machine. On our debt, we just borrow from one another, as people. A government is nothing but the people. We borrow on an individual basis and we pay out on an installment basis; but, if we won't waste our war machine, we can build up a good one.

We can be more harmed by the hysteria that is constantly being aroused here by throwing on this kind of control, or saying, we are facing a big crisis.

If you checked the history of Russia, you would find they never attacked anybody aggressively that they have ever been able to be successful in it; and, anyway, why should they? They are winning the whole world without touching anybody or firing a shot.

But that is a wonderful thing, because that is a philosophy of government we are fighting. We can't defeat that philosophy of government with guns. We have got to defeat that philosophy of government by an idea that we have to sell. We can do it.

If we will follow these processes of making and producing goods and letting the people be able to buy them, and the credit never getting over the usable value of that product—and it won't be; it won't be; it never gets over that, not if you let competition, within itself, handle it—if you do that, why you can even bring these people out of the slums, out of their poverty-stricken areas all over the world. They can do that if they will go to work; but they have to produce; they have to produce usable goods.

Now, then, gentlemen, we have gone along, and we have this situation——

Representative Brown. Mr. Cain, would you pardon me just a moment?

Mr. Cain. Yes, sir.

Representative Brown. We are going to conclude the testimony today.

Mr. Cain. I am going to get right into the used cars.

Representative Brown. I am going to give you all the time you want. We have a Senator who has a committee meeting, and he wants 5 minutes. Would you object to allowing him to testify at this time?

Senator Dworshak. How much more have you got?

Mr. Cain. Just a very few minutes.

Senator Dworshak. Go ahead.

Representative Brown. I am not trying to hurry you. Take your time.

Mr. Cain. Now, what are we doing? Let's think this over. On the one side, we have already got too many dollars; and we have a short supply of goods, to a great extent. At least, we anticipate a short supply, because that is common sense.

We are going to be building up one side and going to be cutting it off on the other side. Now the answer has always been to say, put on controls, control everything, control the whole works.

Well, listen. If you do, you can bet your life you are going to live with them the next 20 years; maybe some of us will never see them off again. That is exactly what every one of these other countries followed, and look at them today.

All right, what are we doing right now? I said, we are adding dollars. No. 1, one of the worst things we are fixing to do, we are fixing to take over 60,000 people out of a producing society and hand them over to overhead in the OPA deal. That is what controls are going to take. That is just adding once again to your overhead without producing the goods.

Now, then, the wage raises have already started up; and that is putting more dollars into the market.

This business of constantly not seeing this thing as a long-period situation; that that is just one battle in Korea; that this is a long over-all situation, and creating it because of what we call a major defeat today on a battlefield is a ridiculous thing, because we certainly have suffered no major military defeat. We suffered the loss of a battle; and we haven't even lost that yet. But the hysteria that we create is the worst enemy to our balanced economy that we have.

Of course, if you create so much of it, you start people bidding against each other and create that demand, the urgent demand, far more than you can get goods, the prices go up, like the prices have gone up in food and rubber, and a lot of other things. It is just a normal reaction to that.

If we go at this thing right, then we will certainly not need these controls. It will calm down.

Now the next thing is on the used cars. The used cars are one thing; the used cars are already here with us. Now last time we created an outright inflation in the used-car market ourselves because we held a false value when there was none. We had to let the controls down sometime, and the minute we did, we had all those dollars, and we still didn't have any more used cars. When we did, we pushed that used car up so fast, by bidding against one another, as you might see, that at one time you paid more for a used car than you did for a new car; because we had built up on one side and we had cut down on the other. We have got to build up the minus side; and we have got to always work on that plus side of money as our problem.

Now, in the used cars, we already have those cars here. We already have them here, the materials applied to them.. They must be placed into the hands of the people who need them.

You can bet your life that no businessman is going to extend credit beyond the usable value of that used car. The businessman will look at the value of that car, as to how long can it be devoted to use, and that, within itself, is going to control prices and terms within itself on the used-car market.

However, even though we realize that that is a very broad over-all picture of it, we realize that we have gone a long ways in the other direction. For that reason, we know, in all probability, that we are going to have to live under this National Defense Production Act, which is really a national control act, probably for a long time.

Now, then, we are proposing this amendment to the act, itself. I won't read it over; but I want to answer the question asked awhile ago, Senator Capehart; and that is this: That the maximum shall not be more restrictive than one-third down of the sale price, and 24 months to pay the balance; but we have a proviso on that:

Provided, That the installment terms shall never be made so restrictive as to affect the ability of the low-income group to purchase said used cars on installments basis.

Now the reason, as far as the price-control end of it is concerned, is that automatically, when you put on regulation W, itself, you placed price control on the used car, because it has always used it through that guide book.

To prove that to you, I have some ads here, which you may be interested in seeing at a later time, as to how easy it is that dealers will find, through the lease method, that they are going to meet the problem by going to the very essence of it. That is a sound plan, a very sound plan of leasing automobiles; because that will get to the usable value. It will still be paying for its use; and that is all you ever pay for on an automobile, anyway. You don't buy the refrigerator because you like the refrigerator; you want the refrigeration.

Representative PATMAN. It is impossible to buy a telephone; isn't it?

Mr. CAIN. That is right. You never pay for a telephone; you never pay for a railroad; you never pay for a utility. You pay for the use. You never will pay for it. That is exactly the same thing. As long as you have government, itself, you are going to have a national debt.

Representative PATMAN. On this lease basis, that is tax-deductible, too.

Mr. CAIN. Absolutely. This has created more faults, this very regulation. We are not going to try to ask for the whole thing. We do ask that you give very careful consideration to this amendment; because we feel that we will have trouble with the Board.

Senator, I will yield.

Representative PATMAN. You mentioned the national debt.

Mr. CAIN. Yes, sir.

Representative PATMAN. You know now, in speaking of dollars and values, you are always referring to the dollar compared to 1939 dollars.

Mr. CAIN. That is right.

Representative PATMAN. The only consolation I guess we have out of this inflation is the fact that the 60-cent dollar makes our national debt $150,000,000,000 instead of $250,000,000,000.

Mr. CAIN. That is right.

Representative BROWN. Senator Capehart, do you desire to interrogate this witness?

Senator CAPEHART. Not at the moment, no. Has he finished?

Mr. CAIN. Yes.

Senator CAPEHART. One question. In other words, your recommendation is that the Federal Reserve Board adopt this method?

Mr. CAIN. Our recommendation is that Congress amend that act so the Federal Reserve Board will have somebody to answer to beside just their own explanation of that chart. When the thing was going down, and they could read clearly their own charts; and then to put on something that has become nothing in the world but a confiscatory measure to the public, themselves, and taking over 23 percent of the assets of the public right away and just casting it aside. I think that was a very bad piece of judgment in putting in the October 16 amendment.

Senator CAPEHART. Do you think Congress showed bad judgment in passing the 1950 Defense Production Act?

Mr. CAIN. I could spend an hour on that, if you please.

Senator CAPEHART. Do you think they did or did not?

Mr. CAIN. I can't say that, because there are certain things in that Defense Production Act that I think a great deal of. That is personal opinion, however.

Senator CAPEHART. Do you think the Congress made a mistake in incorporating in the act a return to regulation W?

Mr. CAIN. Yes, sir; I surely do.

Senator CAPEHART. Then your criticism is really directed toward Congress, not the Federal Reserve Board?

Mr. CAIN. I don't criticize Congress at all. We don't mean to criticize Congress.

Senator CAPEHART. You have a perfect right to. I don't know why you don't criticize it. I do.

Mr. CAIN. We certainly criticize it this way. Congressman Patman's amendment certainly should have been adopted.

Senator CAPEHART. What was that?

Mr. CAIN. That whoever ruled and set up these arbitrary rules was responsible to the people; so we could come over here and do a little complaining; instead of having some people completely divorced from this Government exercising uncontrolled authority, as he pointed out very clearly the other day.

Senator CAPEHART. The President could have done a better job?

Mr. CAIN. At least we could have complained to the President.

Did it ever occur to you what may have happened to the Democratic Party on these very rules and regulations? You know the Honorable Secretary of the Treasury and the Federal Reserve Board are just like that [indicating]. You know Stuart Symington has been sitting over here hollering about we have to have more rigid controls on everything. These boys sitting over there and saying, "This might be a very good time to kind of give them some rigid controls." About 1 week before election, they slap on all of these controls; and who does it hit in the face? The poor man, the guy that was voting; and he went to the polls with the greatest of indignation, too. It might have been just a little bit of a double cross, if you want to know something.

Senator CAPEHART. The trouble was they didn't go there in strong enough numbers. They missed by two in the Senate.

Mr. CAIN. Of course, you understand that last was my own personal opinion; and the press must remember that has nothing to do with the National Used Car Dealers Association.

Representative PATMAN. One other question about the Federal Reserve Board. I brought out the other day that the Federal Reserve failed to use the reserve requirements feature for commercial banks, and thereby continues to permit the extension of inflationary credit to the amount of $2,200,000,000, at least. In addition to that, they have 50 percent marginal requirements on the purchase of stock; and that has never been tampered with, either.

It occurs to me that they are letting a lot of the big ones go and chasing the small ones.

Mr. CAIN. That is the way we feel.

Senator CAPEHART. May I say this: Congress has a perfect right to pass your amendment. The Congress has a perfect right to pass a law correcting what Congressman Patman is objecting to. Congress has a perfect right, of course, to put the Secretary of the Treasury and the Comptroller of the Currency back on the Board. Congress can do anything they want to with the Federal Reserve law.

Mr. CAIN. That is exactly right. I hope to God for the sake of our country they do.

Senator CAPEHART. Congress has a perfect right to make any change they want to make in it anytime they want to make it.

Representative BROWN. Off the record.

(Discussion off the record.)

Mr. CAIN. We have filed an application for hearing. We don't know whether we will ever get it or not; but it probably won't do any good. That is the whole trouble. That is the reason we are over here before Congress, to change the thing so the Federal Reserve Board will have at least to listen to it and follow the common-sense dictates of their own charts.

Representative BROWN. Do you have anything else for the record?

Mr. CAIN. That is all. I think every one of you has been sent this [indicating]. It has been sent to each of your offices.

Representative BROWN. We have that. Thank you very much.

(The prepared statement submitted by Mr. Cain appears in full as follows:)

STATEMENT OF FRANK CAIN, GENERAL COUNSEL, NATIONAL USED CAR DEALERS ASSOCIATION

Gentlemen of the committee, my name is Frank Cain of Dallas, Tex. I am here representing the National Used Car Dealers Association.

In concluding the case of the Used Car Dealers of America, on behalf of the members of this our association and the members of this large American industry, I want to express our gratitude for the time, courtesies, and consideration given us and our cause.

I am a veteran of World War II which we are still in, and as a matter of fact, as I understand it, I am probably one of the few people that is a Reservist in both the Army and Navy, so I imagine my civilian days are quite indefinite.

We are faced with full military mobilization as we have been for some time. The problem facing us is really a new one. We know who our real enemy is; but we cannot, militarily speaking, strike back without becoming what we might term as aggressors. Russia will never directly attack any country that will throw her into an aggressive war. She will continue to provoke us into attacking her. This we should never do and I don't believe we will. Therefore, the problem will be of long duration. This creates a very serious problem.

We must build our military strength second to none. At the same time, the economic problem created thereby will threaten our very existence from within. We, therefore, have full realization of the serious nature of our inflationary problem.

We have no criticism of any group and our remarks here are not for that purpose. We believe the whole premise upon which this problem is being approached is not only wrong, but is false. There is either a complete misunderstanding of installment buying or a total disregard for reality.

With your indulgence, I am going to try to prove to you that to put regulations on the sale of used cars, including price controls, is to create nothing but a false value which inevitably results in just exactly the opposite that the controls are put on to prevent.

Back in June 1927 I found myself with $13 in my pocket representing a week's work picking cotton. I was out on a highway with a mother and a sister. We were hitch-hiking our way to a big city called Dallas. Under my arm, I had three books, one was the Life of Abe Lincoln, another was Thomas Jefferson, and another Alexander Hamilton. In one of these I found hope, faith, and determination; in another a sensible, sound, and free philosophy of government; and in the latter what appeared to me to be a conservative but sound businessman. At that time I saw a relatively good prosperity, particularly among some men, but mostly what appeared to me to be caused through the founding of new industries.

Suddenly in 1929, while working my way through school, in one of these great but brand-new industries, I suddenly heard a big explosion up around Broad and Wall Streets of New York. It seems a bunch of guys up there were printing a lot of paper called stocks, but for the most part they forgot to see what kind of factory was represented by that stock A bunch of them jumped out windows, and there was another fellow up here in the White House then, who had just gotten there. He got so scared he decided to cut everybody's salary and those he couldn't cut, he fired. Well, that had a very salutary effect on a lot of employers so they began to follow this brilliant man and they fired everybody they could. Now, most of us have the peculiar habit of eating, so I saw men bidding against one another for jobs. I saw many men working day in and day out for 10 cents an hour. Here was a people ill-fed, ill-housed, and ill-clothed, and nobody doing anything about it.

Many of the men that I heard then were in favor of sending Congress home and just getting anyone who had the know-how to get us out of that damnable mess. I listened to many college debates as to which was the better form of government, a Republican form of government or this new-fangled government led by one man over in Italy who said, "I don't care who is king as long as I am boss."

So we got us a "king" in 1932. He had the power to get on the radio and he would create so much faith, hope, and determination into the people's backbones that they started to work. I saw employers compelled by a confident people raise wages from 10 cents per hour to 30 cents per hour overnight. Of course, everybody said they'd go broke, but they didn't because they began to produce and man began to buy shoes he needed. Everybody started back to work.

It was during this period when installment selling began to catch on. Banks even woke up and realized that you could finance a car or a man's home on a long-term basis without losing money. By installment selling and buying the purchaser enjoyed his car which he paid for out of earnings while he used it. After all, there wasn't much chance for loss since the car was good for a lot longer period than he would need to pay for it.

But unfortunately we developed a lot of theorists, daydreamers, up here in a bunch of these eastern colleges and those guys, scared to death of another depression, dreamed up the idea that the cause of the 1929 debacle was "over-extended credit." That, of course, is so ridiculous even I know it don't make sense. Well, those dreamers drifted into this Government by the carload. They so muddled up our great President's thinking—and I do mean he was a great man—that he got lost in the fog of these dreamers. Then Congress got lost with him. Working and producing and making it possible for people to buy and pay for their goods and wares wasn't enough. No, sir; we began to tell everybody the Government owed them a living. We told the worker, "Don't worry about working; we guarantee you some money anyway." Of course, to a great extent a lot of these guys believed it, so more and more of them have used every chance they get, prefer to get paid without working. Well, when you don't produce and you get paid anyway, you have nothing to show for your money. (That's inflation in "common sense.")

Well, that theory has become so ingrained in our thinking that we are getting ourselves in one hell of a mess.

When World War II hit us, the impact was so great and our sources of supply so limited and needs so urgent there may have been some temporary need for controls at that time, even though they didn't do much good. I am very doubtful that in truth and fact they did any good at all. It might be conceded that some bidding against one another for the goods already produced could have given them a false sense of value, but in time production, and not waste, would have straightened that out. Now I didn't use the word "waste" in a false sense. I am going to get to that now.

When I was in the Navy I decided to read something about these new-fangled economics that the FRB and many of these dreamers talk about. I got over to page 50 and the book said, "If we ever get a national debt of more than $60,000,000,000 we will face economic ruin." I closed the book because right then the debt was over $125,000,000,000 and we seemed to be getting along fine. We had decided by necessity to buy and build up a war machine second to none in the world. The Government, who is nothing more than the people, had to borrow from its people (on an individual basis) to pay for this military machine on an installment basis. It's true when World War II ended, such as it did, the people were heavily in debt to one another, but we had something—something that was more than of equal value. I say "had" because in 4 years the war machine seems to have more or less disappeared. Now if it's gone, or I should say whatever part of it is gone (and I am certain a lot of it is because I saw enough blankets and other good, valuable material thrown away and deliberately destroyed to have made one sick), then of course if the installment on the debt has not been paid in proportion to value of the material that is gone, then the debt is inflated to that extent. In that regard, Congress would do well to look into that phase of the matter, not that you could change the inflation caused by the war machine's needless destruction, but you could pass on a valuable lesson to our kids that are daily inheriting this mess.

Now, gentlemen, you can see what I am getting to. As long as you get the product for your money, I don't care how much its cost, it is not inflationary as long as it can be used and not just dumped into the sea deliberately as much of our war machine was in the Pacific. As long as it can be used for something, it may lose in value faster than the debt can be paid. However, it will not create inflation nearly as fast as its deliberate destruction. Now we have another war—or I should say we have awakened to the fact that the other one was never over. Of course, almost every GI I talked with in 1945 who was mustered out from Germany knew it wasn't over. At any rate we've got to add to our military machine, so we've got to borrow from one another again, and that's OK because we'll get something for our money. That is, if we quit dreaming and start to work and recognize waste when we see it.

We can, I think, be thankful that this time we have an enemy who doesn't act so fast but actually is more deadly and deliberate. We can use that "slow process" to catch up. Now we have got to go to work and produce and quit just plain wasting money and not producing. That is the one and only answer to inflation. We can avoid the impact of manpower shortage by first getting rid of half the needless bureaus that have been created up here and let them get into defense plants. They'd get money and learn something real about producing goods, but of course they would have to work.

In all sincerity, this Defense Production Act ought to be called the Defense Control Act. I actually wonder if old Alexander Hamilton wouldn't just turn over in his grave if he could see how completely uneducated we have become from plain, common horse sense. Senator Robertson I guess can see now how "plain easy" it is to answer his questions the other day on inflation. Congress actually ought to repeal the whole thing and start over, remembering you want a free Government, not a controlled one. This war deal is going to be with us a long, long time. Our danger of crumbling within is actually more danger than without. If you need tanks, I'll give you the names of 10 Americans who will put up their own money and build them. I doubt if they would even want any profit, if Congress gave them 1 month in Washington cleaning out the needless bunch of bureaus.

Now I am going to give you the recommendation of the National Used Car Dealers Association. Because we are doubtful we will not be relieved of the effects of this act, we would like to recommend that the following paragraph be added to section 601 of the Defense Production Act:

"*Provided, however*, That the installment terms on the sale of used cars shall not be made more restrictive than one-third down payment of the sale price and twenty-four months to pay the balance: *Provided*, That the installment terms shall never be made so restrictive as to affect the ability of the low-income group to purchase said used cars on installment basis. That said price controls as authorized in said Act shall never apply to the sale of used cars."

REASONS

1. You cannot have price controls on used cars because there are no two used cars of the exact same value.
2. That transportation by the used cars is an essential to the defense effort.
3. Furthermore, the sale of used cars on an installment basis does not add to the inflationary problem.
4. That OPA found it was impossible to regulate the price of used cars.

Now I would like to take up Senator Robertson's questions which are certainly logical questions to ask. Here we have too many dollars in circulation in proportion to the supply of goods. That is inflationary, for it tends to create false values or, I should say, values which would normally fall as the supply of goods increases. The value is not false as long as the product has usable value. So, on the money side we have a plus, and on the goods side we have a minus. Certainly the evil is on the plus side, so that is the side to work on, but without doing anything to the minus side except try as fast as we can to build it up. There is no answer to inflation except to produce usable goods—use them and stop waste. The usable value of the goods will always take care of the price and the terms upon which they are bought.

The very worst and most inflationary thing on earth is to add to the overhead of anything because that increases the price without increasing the usable value. The most destructive thing that can be done right now is to take 60,000 people out of a producing society and add them to overhead as this OPA deal authorized by this act will do.

It becomes increasingly obvious that our shooting war in Korea is drawing nearer every day to a close. It is my opinion that it will stop with our troops in Korea and become a negotiated matter or it will mean evacuation to stronger points of defense. Unless there is a very big turn of events, we surely would not declare war on China and you can't win a war with just the other side doing the fighting.

Hysteria among the people is the most constant enemy to a balanced economy. It should be guarded against at all times. The proclaiming of a national emergency will have that reaction for a while and send prices still further up. It is my opinion that the President will make a mistake by proclaiming a national emergency this week, particularly if it is being done to only institute the controls authorized under this act. Get at the root of the problem; keep people working to produce. Work and more work is the answer and the only answer. Produce and use, not waste, should be the creed.

In other words, gentlemen, used cars in the possession of the public are an absolute essential to the defense effort. The price will never go up beyond that comparable to the car's usable value. If the price does go up, the terms should always be such that the worker may be able to buy just as anyone else. You cannot control price through credit terms; you only create false values. We must not by regulation make cars that are available, have to be purchased in such manner as to hinder the defense effort.

Let's look at this thing realisticaly and solve this problem with as little Government interference as possible. If we don't, we will end up exactly as every other country has, in regulating itself into a corrupt economy and a defeated country.

Representative Brown. All right, Senator.

STATEMENT OF HON. HENRY C. DWORSHAK, A UNITED STATES SENATOR FROM THE STATE OF IDAHO

Senator Dworshak. Mr. Chairman and gentlemen of the committee, I appreciate this opportunity to appear briefly before this hearing, which has under consideration regulation W.

First, may I say that I do this primarily because I have been requested to appear by the Idaho Automobile Dealers Association, and by potential purchasers of automobiles in my State.

I spent several weeks there recently; and I discussed this subject with scores and scores of persons who sell automobiles, both new and used; and, likewise, those who intend to purchase automobiles and will be subject to the regulation which is under discussion.

I am somewhat intrigued by a report of the testimony of Chairman McCabe, of the Federal Reserve Board, before your committee recently, in which he is quoted as having said:

> The recent limitation on automobile credit actually helped those with low incomes.

He said:

> It has reduced used-car prices and made used models easier to buy.

I vigorously disagree with that contention, because it is obvious that people with low incomes should not be placed in the category where they are permitted to buy only used automobiles. I think that they are also entitled to buy the new machines, the new automobiles.

May I say, first, that I am in hearty accord with any program which is designed to curb inflation. I think that is an essential part of our military and economic preparedness. However, I do not think regulation W will curb inflation; but, rather, will accelerate it.

I should like to call attention to a telegram sent recently by the Idaho Automobile Dealers Association, suggesting that some revision be made in regulation W, because it is virtually impossible for a purchaser to make the full installment payments within a period of 15 months.

In order to be specific, I requested this association to prepare a memorandum; and I should like to read it at this time. [Reading:]

The following memorandum is respectfully submitted for your consideration and necessary action to obtain relief for the automobile dealers in the State of Idaho, who are now being crippled by the present restrictions imposed upon us by the Federal Reserve Board through regulation W.

The harshness of the present credit curbs is forcing many dealers out of business in this State. New and used-car stocks are mounting to alarming levels as purchasers cannot afford to purchase the later model used cars under the present credit restrictions.

Used-car prices have dropped from $200 to $500 on the late model units in dealer's stocks, due to this lack of purchasers. As a result of this, dealers must now make nonprofit deals, and in most cases suffer a tremendous loss, in order to liquidate their used-car stock.

First, one proper and simple method to control credit, if it must be controlled, would be to call upon banks and finance companies who are engaged in consumer credit, asking them to agree on fair terms, such as 25 percent down, and a limit of 21 to 24 months, according to the unpaid balance.

Second, dealers in the West are being discriminated against, due to the addition of freight charges to the base price of their cars. As a result, the retail prices are higher in the West, making higher payments for customers under the present 15-month restriction. Because of this, many purchasers are buying their cars in the East, to take advantage of smaller payments. As a suggestion, perhaps a western buyer might be allowed an additional monthly payment for each $75 of freight involved in the sale of the car.

New-car sales in Idaho have decreased at least 50 percent, and used-car sales 75 percent since the new credit restriction was forced upon the dealers and public. This is also true nationally, according to NADA and the Automotive News.

It is the opinion that Federal controls might be necessary in some more lenient forms, but that Federal authorities simply and obviously do not know enough about the businesses over which they are trying to control. Nor have they sought the advice and counsel of the National Automobile Dealers Association in Washington, D. C., who represent better than 93 percent of the new-car dealers in the United States. This organization can well present the problems of dealers from rural and metropolitan areas in the entire 48 States. The present controls are discriminating, inasmuch as many of the wage earners are forced to drive old cars requiring expensive upkeep and repairs, where they might otherwise purchase a good used car, if they were allowed the right to purchase on longer credit terms. The moneyed man will drive a bargain for a "good deal for cash," forcing cutthroat competition for his business. The wage earner cannot do this because he hasn't the cash to pay. In other words, he is entirely out of the market.

The Idaho Automobile Dealers Association asks your most serious consideration on this matter, and requests that you exert every influence to eliminate or materially modify the present regulation W. If it is found that the regulation can be modified, please request that the credit agencies, such as banks, finance companies, and the NADA be consulted and their recommendations be fully considered by the Federal Reserve Board.

That concludes the memorandum prepared by the Association of Retail Dealers in Idaho. I should like to add merely that it seems to me that in the interest of safeguarding the security of our country, and building up our preparedness, both militarily and economically, we should approach some of these controls with caution.

I am sure members of this committee, during this hearing, have heard various aspects of this problem discussed fully; so I shall not go into detail.

However, I do want to stress that it seems entirely unjustifiable to invoke controls which will cause dislocation in the automobile industry, beginning at the factory and going through the dealers to the ultimate purchasers of these cars, both new and used.

I know in our State and in the West, where we have long distances to contend with, that transportation is a vital problem; and I think anything that is done at this time to make it more difficult to get from one place to another, to purchase automobiles which are the mode of transportation of the average person, will cause dislocation; and instead of actually curbing inflation, will sort of cause acceleration and inconvenience which will prove disastrous to everybody.

I appeal to you to do something to correct this situation. If it is necessary to have a regulation of any kind, I think that Congress, reflecting the views of not only dealers, but the purchasers of automobiles, should have a voice in determining which policy or policies should be placed in effect.

I think that is vital from the standpoint of cooperation on the part of the American people. I think it is entirely too early in our preparedness effort to antagonize any particular group. I think the committee is in full accord with that contention. We need cooperation; and the way to get it, in trying to curb inflation, is to consult those who have full knowledge about any particular program. In this case, the sale of automobiles; going back to the production of automobiles, also; so that we can adopt a sane and constructive program, rather than one which will cause inconvenience and dislocation throughout the entire industry.

Thank you.

Representative BROWN. Thank you very much, Senator.

Representative PATMAN. Senator, I would like to make one observation, since you are so interested in this.

We have discovered that the Federal Reserve Board, at least, I am convinced, has acted arbitrarily in absolutely refusing to carry out a clear and unmistakable mandate of Congress.

We wrote into this act, section 709 of the Defense Production Act of 1950, a provision that before these credit restrictions would be imposed, that the people affected and involved would be consulted.

Now that goes back to the original OPA Act in 1942. That was first written into the OPA Act. There was a good reason for that.

OPA didn't carry it out just exactly like I believe Congress intended; yet it served a good purpose. And when this came on, probably the first long step in the direction of all-out emergency, Congress was very careful to put that provision into this law; and we find that the Federal Reserve Board has just deliberately refused to carry out that clear and unmistakable mandate of the Congress of the United States.

Then we look into the Federal Reserve Board and we find for administration purposes they are under no obligation to the Congress. They tell us to just go anywhere they want to. It is only in cases where amendments to the law are involved that they have any reason to be interested in what Congress is doing.

They are not connected with the executive department of our Government. They have finally—I don't say, wiggled themselves out; they didn't do it; they might have had something to do with it; but Congress permitted the Federal Reserve Board to get out from under either the legislative, the executive, or the judicial branches of our Government. They are not under any one of them.

They can do what they want to. They are not directly or indirectly responsible to the people, as they should be in a democratic country. That is due primarily to the fact that back when our national debt was probably $20,000,000,000, and the Secretary of the Treasury wasn't even attending the Federal Reserve Board meetings, and neither was the Comptroller of the Currency, somebody suggested, "just take them out," and they were taken off, without any objection, without any debate in either the House or Senate.

Now we have a national debt of $260,000,000,000. It occurs to me that somebody should be on that Board who is directly responsible to the people, in that they are selected by the President, who is elected every 4 years, and he is obligated to the people.

Commencing in January, I am going to give some attention and thought, and I hope you do, to changing this Board. I don't know whether there should be a majority that is directly responsible to the executive and legislative branches of the Government or not. Possibly a majority should be with the Federal Reserve Board; say, 4; but three certainly should be directly responsible to the Congress and the President of the United States.

The greatest power of all is not in the Federal Reserve Board, as such. It is in the Open Market Committee, as you know; and the Open Market Committee is composed principally, or at least a large number of them, of a membership of the private banks; people selected by the private bankers, who are interested in commercial banking, as distinguished sometimes from an interest they would consider purely public interest.

That Open Market Committee should be looked into as well as the Federal Reserve Board, because the attitude of the Federal Reserve Board in this is just a sample of what they will do.

If they will right here, on the first jump, just defy Congress, and do something that is clearly in opposition to what Congress said, there is no telling what they would do if they had the power.

So now is the time to stop them and do something about this Board, and especially the Open Market Committee.

I hope you give some consideration to that, Senator.

Senator DWORSHAK. I share your sentiments along that line, Congressman Patman. I think it would be a very inappropriate time to permit this Board, or any other executive agency in the defense to defy any mandate of Congress.

I think it would be unwise, also, from the standpoint of public approval and support, to permit the setting up of some precedent that is not justified by the facts, which would not actually help to fortify and bulwark our preparedness, but rather to discourage the people from cooperating.

I think that is an essential part, because we must have the full support of the public in any program dealing with our preparedness. I think that Congress, reflecting the thinking of the people, and the will of the people, should have a direct voice in the administration, through some of these boards, of the Defense Production Act.

Representative PATMAN. Of course, the Federal Reserve Board, they are administering a law, the 12 Federal Reserve banks and 24 branches, that are owned, it is claimed, by the commercial banks of the country.

They bought stock to the extent of 6 percent of their deposits, and actually they only paid in 3 percent; never have paid in more than 3 percent; and the amount of stock is absolutely insignificant, amounts to nothing compared to the amount of business that the Federal Reserve banks do. Out of less than $200,000,000 in stock, they can buy up to $20,000,000,000 of the national debt, or $50,000,000,000 or $100,000,000,000 of the national debt. It is unlimited.

In other words, we have a Federal Reserve banking system that is owned by the private banks of the country; and if we let them administer it through the Federal Reserve Board without mandates from Congress that are heeded, there is no telling where this country will go. I think we ought to give some consideration to that.

Representative BROWN. All right. Thank you very much, Senator.

Now we will adjourn to meet on Thursday, December 14, at 10:30 a. m., in room F-82 in the Capitol, in executive session, to hear Secretary Sawyer, APA Administration Harrison, and Chairman of the NSRB, Mr. Symington.

We are now adjourned.

(Whereupon, at 12:10 p. m., the hearing was adjourned.)

(The following statements and letter were later received for insertion in the record:)

STATEMENT OF HON. JOHN A. CARROLL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. Chairman and members of the Joint Committee on Defense Production, I wish to take this opportunity to present to you the views of automobile dealers in my district and in other areas of Colorado regarding the consumer-credit regulations recently imposed by the Federal Reserve Board.

Since regulation W was imposed, I have received numerous letters and telegrams from automobile dealers in all parts of the State, and I also have talked personally with some of these men. It is my opinion that they generally recognize the necessity for imposing some credit controls during this emergency period. However, without exception they feel that the present regulation is unduly restrictive. They state that as a result of the requirement that payments must be completed within 15 months, many persons of average income cannot afford to purchase cars which they need in their occupations. Many dealers also have informed me that they will be forced to discharge some of their employees as a result of the decrease in business since regulation W went into effect.

I should like to present brief excerpts from some of the letters and telegrams which I have received. I am following this procedure since I believe you will gain a much clearer picture of the problems of these businessmen from their own words than from any statement which I might make.

The Denver User Car Dealers Association, Richard B. McCoy, executive secretary: "This office has made weekly surveys of the effect of regulation W since its inception, the results of which show that business has dropped to a serious low ebb."

Clay T. Whitcomb, Whitcomb Motors, Sterling, Colo.: "Since this regulation became effective our sales of both new and used vehicles have come to a complete standstill, which is jeopardizing the livelihood in our own organization of 15 families, or approximately 60 people."

Swayne-Marsh-Winbush Motor Co., Denver: This regulation has already put our business at a standstill and is resulting in the necessity of laying off large numbers of our personnel. In many instances the result will cause many dealers to close their doors and go out of business."

Max Mosko, Max Mosko Motor Co., Denver: "I have been forced to recognize a $20,000 loss on a $60,000 inventory and in all probability will take an additional $10,000 loss before the end of 1950."

Kurland Motors, Denver: "The volume of this firm's business has decreased at least 35 percent since the renewal effective September 18, and a further drop appears certain."

Piatt Motor Co., Lamar: "Our business fell off 30 percent with the first 21-month program. We did not complain on that, but at the present program of 15 months it is impossible for an average workingman to have a late model car or new car for his business."

James Motor Co., Denver: "This recent regulation has practically put us out of business, as we normally deliver approximately 20 cars per week. We have delivered and sold just four cars since this last regulation went into effect."

Reed Auto Sales, Denver: "After the directive of September 18, the sale of new cars in our establishment dropped 60 percent. After the directive of October 16, our sales dropped 90 percent. These new terms hit the hardest, the law-income groups and essential plant workers who are the ones most in need of transportation."

Ables Motor Co., Denver: "Our sales have nose-dived to nothing since the time payment limit has been reduced. We have had many potential buyers, but the higher monthly payments make it impossible for the average person to buy."

Mr. Chairman, I have received many other similar letters and telegrams, and I should like to leave them with you for your further consideration.

I realize that this is a very difficult problem to resolve to the satisfaction of everyone concerned. However, this regulation so directly involves the livelihood of the many thousands of employees in the automobile industry that its effects should be given the most careful consideration by this committee. I am confident that you will give full and fair attention to the statements of Colorado automobile dealers in your work on this problem. Thank you.

UNITED STATES SENATE
Washington, D. C., December 12, 1950

HON. BURNET MAYBANK,
Chairman Joint Committee on Defense Production,
Washington, D. C.

MY DEAR SENATOR: I have had a great number of communications from used-car dealers in New Jersey protesting the terms of regulation W.

I would be most appreciative if you would see that my protest in behalf of these used-car dealers of regulation W is entered in the record of the hearings regarding this matter.

Sincerely yours,

ROBERT C. HENDRICKSON.

STATEMENT OF THE AMERICAN FINANCE CONFERENCE, CHICAGO, ILL.

MR. CHAIRMAN AND GENTLEMEN OF THE COMMITTEE: This statement is presented to your committee on behalf of the membership of the American Finance Conference, 176 West Adams Street, Chicago 3, Ill., and has been prepared by a special committee of that organization authorized to speak in its behalf.

The conference is a national trade association, the membership of which is composed of some 350 independent sales finance companies engaged in the business of purchasing installment sales contracts growing out of installment sales made by retail automobile dealers and other retail dealers located in all parts of the United States.

The 350 companies, members of this association, maintain a total of approximately 1,300 home and branch offices throughout the United States, and during the past year purchased consumer retail installment sales contracts covering the sales of approximately 1,300,000 motor vehicles, involving a dollar volume of approximately 1½ billion dollars.

In addition to the purchase of these consumer retail installment sales contracts, the members of the association have extended to some 20,000 retail automobile dealers more than $1,000,000,000 in credit to purchase motor vehicles and to maintain inventories for their businesses.

We are, therefore, vitally interested in regulation W, and any other matters having a bearing upon the use of installment credit by consumers and dealers in the United States.

OUR GENERAL POSITION

First of all, we would like to make it very clear that:

(*a*) We are in favor of, and will support any and all equitable and effective efforts to control inflation.

(*b*) We recognize that the Nation cannot continue to consume durable goods, and particularly automobiles, at the rate enjoyed prior to the 1st of September of this year, and realize that the production of these goods must be cut in order to make manpower and materials available for the defense effort as fast as, and as soon as, the specific and determined needs of this defense effort are translated into production orders.

In the meantime, however, we are anxious that any and all new cars manufactured, as well as the available supply of used cars, be distributed without discrimination, on an equitable basis, and in such a way as to meet the transportation needs of the Nation, both present and future, in the most effective manner.

It is our judgment and belief, therefore, that the imposition and administration of installment credit controls must be viewed in the light of their effect upon all of the factors in our economy and not simply from the point of inflation control alone. Whatever effects, if any, installment credit control has upon inflation must be weighed against, and in the light of, their disturbing effects upon the other segments of our economy, and particularly as to their effects upon our private transportation system.

EFFECTS OF CONTROL

Since the imposition of installment credit controls by the Federal Reserve Board through regulation W, on September 18, 1950, and their further tightening by amendment 1 to this regulation, on October 16, 1950, we have had sufficient time to study first-hand the effects of these rigid restrictions upon the installment sales of automobiles.

The facts which have come to our attention, as well as our first-hand observations of operations under this regulation, lead us to believe that the restrictions have brought about the following undesirable changes in the markets for automobiles:

1. There has been a marked falling off in the sale of both new and used automobiles. However, the greatest part of this decline has been among that group of buyers who must purchase their automobiles on an installment-payment basis. This decline in automobile sales has not brought with it a corresponding decline in the production of new automobiles. The result has been that a substantial portion of the new cars being produced has gone into the inventories of automobile dealers, thus causing a substitution of commercial credit for consumer installment credit, with the result that the total amount of credit used in connection with the production and distribution of new motor vehicles has not been reduced.

2. The stringent terms imposed by amendment No. 1 to regulation W, and the resulting high monthly payment requirements, have made it most difficult for the average industrial worker and the low income person to buy a new automobile or the better quality of used cars. Thus these stringent terms have resulted in changing the pattern of the market for automobiles, because these industrial workers and low-income groups have been forced out of the new-car market and the later-model-used-car markets, and into the market for inferior used-car merchandise.

This changed market pattern, born of the discriminatory effects of the stringent terms, produces a number of undesirable results, which in our opinion, are detrimental to our national transportation needs. Among these are the following:

(*a*) It reduces the quality of the transportation in the possession of the average industrial worker, who should be equipping himself now with the best possible equipment, in view of the fact that we are going into a period of emphasis on defense production, and sooner or later, as our defense production effort gets under way, there will be a reduction in the amount of automobiles available for purchase.

(*b*) It increases the per-mile transportation cost for these groups because of increased maintenance cost during the life of these old units. In addition, the original cost of these older units is greater because of a greater demand for them growing out of the increased number of buyers forced to bid against the fixed number of these older units available for sale.

REASONS FOR THESE RESULTS

The installment seller or credit agency always relates the amount of the debt and the rate of repayment to the income of the debtor. The average installment buyer knows, as does the creditor, that he cannot pay out more than 25 percent of his gross monthly income upon installment contracts. Furthermore, the debtor himself knows the limit of his ability to pay his obligations and rations his debt accordingly. Translated into terms of the average installment buyer's thinking, this means that he cannot pay upon his total installment contract obligations, more than a week's wages.

And what is this weekly wage at the present time? According to data compiled by the United States Bureau of Labor Statistics, in August of this year, the average weekly earning of employees in all manufacturing, before taxes, was $60.28. For the durable goods section of that group this average was $64.00, and for the nondurable goods group the average was $55.78. Under existing rates at least $5 per week of this total goes for taxes.

The time-sale delivered price of the average lower-priced new car ranges from $1,800 to $2,000, including insurance cost and finance charge, depending upon the section of the country in which the unit is sold (higher prices prevail on the Pacific coast because of the freight cost). If we take the $1,800 figure and deduct therefrom the one-third down payment of $600, and require that the balance of $1,200 be paid in 15 months, the minimum monthly payment is $80.

In terms of the current prices of automobiles, these facts means that the average industrial worker cannot meet the monthly payments of from $80 to $100 per month required to purchase even the lower-priced new cars under the present 15-month limitation on credit, since the average industrial worker now earns approximately $55 per week, after taxes. Such a payment would require 1½ weeks' income of the average industrial worker, and this he cannot pay while taking care of his other family obligations.

The same principle applies to the purchase of late-model and the better-quality used cars. A computation of the amount of monthly payments required to purchase at present prices, a late-model used car, or one of the better-quality used cars under the regulation, will show that as a practical matter, the average worker cannot buy and pay for, out of his current income, a used car which sells for more than $1,000, or approximately that price, without making a down payment greatly in excess of the one-third required under the regulation.

Therefore, the practical result of the regulation is that this industrial worker has to grade downward, materially, the quality of the automobile transportation purchased, in order to buy cars which will fit into his ability to pay his monthly payments. The data already submitted to your committee by dealer groups show that this change has been taking place. The data on sales-finance-company operations confirm the trend also.

These general economic results which we have just noted seem to us to indicate clearly the discriminatory effects of regulation W upon the industrial worker and the low-income groups, which effects will lead to a deterioration of our private transportation system, which system will become increasingly more important to our national welfare and defense effort in the period ahead.

SOME OTHER CONSIDERATIONS

Quite aside from the discriminatory economic effects of this regulation, it seems to us that the present controls represent a radical departure in policy from what has always been the American system. In the past, in connection with all matters of national policy, we have attempted to apportion hardships so that those best able to bear such burdens would shoulder the greater share. Through this regulation in its present form, it appears to us that if the Government is saying, in effect, that it is setting out to restrict credit—purchasing power—in order to restrict demand, for the purpose of cutting the production of automobiles, and that the shortages which will arise from this deliberate policy must be borne, in the main, by the installment buyers of automobiles, which group includes those who must have good transportation in order to carry on their work activities.

The present regulations give an advantage to persons with the greatest ability to pay cash for automobiles, and, in effect, largely places the distribution of cars today upon a basis of the ability of the cash buyer to pay. Persons of means who do not need to resort to installment credit can buy automobiles if they so desire. The family which must pay for its transportation through the use of installment credit is forced out of the market for new cars almost entirely, and into a market where the quality of transportation is materially inferior to that available to the cash buyer. This, in effect, reverses our traditional policy of apportioning hardships to those best able to bear them.

Furthermore, it seems to us that undue and unwarranted emphasis is being given to the control of installment credit as a measure for controlling inflation. When consumer credit control measures are viewed in the light of their relationship to all other factors in our economy, it is fully apparent, to those who give careful attention to this analysis, that under regulation W an attempt is being made to make installment credit controls bear too much of the burden for controlling inflation.

Despite the strict terms which have been imposed under regulation W, they have had very little restraining influence upon the over-all total demand for consumer durable goods and the production of such goods continues in great quantity. Some of the declines in demand which have occurred since the imposition of these controls have been due to seasonal factors, which are well known to those familiar with the automobile industry and other production groups. Current evidence shows also that cash buyers are absorbing a substantial volume of durable goods production not taken by time buyers.

It seems to us that in evaluating installment credit controls as a device for controlling inflation a careful study must be made of the total amount of credit outstanding at any particular time in its relation to such matters as the price level, the wage level, the amount of disposable income of the country, the pattern of the market for durable goods, and many other items which appear to have been overlooked or ignored by those who arrive at the conclusion that the amount of installment credit presently extended is too great and that its restriction will materially lessen inflation pressures.

INDUSTRY PATTERNS

It seems to us also that the attempt which has been made in regulation W to strait-jacket installment terms for the entire country through the imposition of a very low ceiling upon the number of monthly payments allowed, without regard to variations in the price levels for the various classes of motor vehicles, income levels, distance factors in the need for transportation, variations in markets as between different parts of the country causes undue, unnecessary, and serious dislocation which might be avoided, to some degree at least, if a more realistic view of these differences were taken by the Federal Reserve Board.

The regulation in its present form either ignores or overlooks these factors, as well as the historic pattern in the automobile sales and financing industry with reference to terms and down payments, which has grown up as a result of the economic and competitive factors which have operated in the industry for a long period of time. The normal competitive forces in a free market have established definite price and value relations between new and used cars, and between different age groups of used cars. For some of the groups the down-payment requirements and monthly payment schedules have always been more strict than for other groups. Many have not been as liberal as now permitted by regulation W.

Industry practices and a number of State laws have long recognized at least three groups of terms—sometimes more—based upon different age groups and price classes of motor vehicles, namely—new and recent model used cars not over 2 years old; late model used cars from 2 to 4 years old; and older model used cars over 4 years old.

Definite suggestions pertaining to a recognition of the principle of classification were made to representatives of the Board by representatives of the American Finance Conference before the original imposition of regulation W, in September. However, to date, this principle based upon industry practices, and State laws has not been recognized by the Board in imposing maximum monthly terms.

We feel strongly that the present discriminatory effects of regulation W, against industrial workers and the low-income groups could be softened, if not altogether avoided, if the Federal Reserve Board would recognize the classification principle inherent in this existing industry pattern just mentioned. At the same time, we believe that the administration of a regulation which incorporates this principle could be so carried out as to produce the same restraining effects upon inflation, if any, as are now being obtained under the regulation in its present form.

OUR RECOMMENDATIONS

We suggest, as a means of eliminating the present discrimination, that the Board adopt the principle of classification just noted, and incorporate in regulation W the following terms:

1. For current model new cars (1951) and used cars of current models (1951), one-third down and maximum maturities of 24 months.
2. For used cars for the year models 1948–1949, and 1950, one-third down payment and maximum maturities of 21 months.
3. For used cars of year models 1946 and 1947, one-third down payment and maximum maturities of 18 months.
4. For used cars of prewar models, one-third down payment and maximum maturities of 15 months.

If the above suggestion as to groups and terms is not acceptable to the Board, in view of the pattern established in the original regulation before the adoption of amendment No. 1, we suggest the following alternative procedure:

1. For current model new cars (1951) and used cars of current models (1951), require one-third down payment and allow maximum maturities of 24 months.
2. Rescind amendment No. 1 to regulation W and restore the terms originally incorporated in the regulation, namely: one-third down payment and maximum maturities of 21 months for all used-car models of year 1950 or earlier.

We appreciate the opportunity of making known to you our views on these matters, and sincerely hope that our recommendations will now receive a sympathetic hearing from the Federal Reserve Board. We trust that favorable action thereon may be taken by the Board at an early date, so that the present discriminatory effects of regulation W as well as its detrimental effects upon our national transportation system may be eliminated.

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