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Congress of the United States
House of Representatives
Washington, D. C.

Member of
Education and Labor Committee

Ray J. Madden
1st District Indiana

January 24, 1949.

Mr. M. S. Eccles
Board of Governors
Federal Reserve Board
Washington 25, D. C.

Dear Mr. Eccles:

I received numerous protests from automobile dealers in regard to regulation W.

Unless something is done to relieve this rigid control, a great number of retail automobile dealers in my district and thousands in the country will close their doors.

Please advise me if there cannot be a change in this rigid regulation.

Very truly yours,

Ray J. Madden, M. C. (Signed)

COPY

February 16, 1949.

Honorable Ray J. Madden,
House of Representatives,
Washington, D. C.

Dear Mr. Madden:

This will acknowledge receipt of your letter of January 24, 1949, in which you suggest relaxation of the provisions of Regulation W, as they apply to the instalment sale of automobiles.

Although the Board has received a number of requests for relaxation of the regulation from those in the industry or those financing its retail sales, there is also evidence of a different point of view in those quarters. The attached sheets contain excerpts from unsolicited letters we have received expressing views that the regulation should not be relaxed at this time.

Regulation W is a flexible measure and the Board is particularly concerned that it be properly adapted to current economic and credit conditions. With this in mind, the Board is constantly studying conditions in the economy generally as well as conditions in businesses which are affected directly by the provisions of the regulation, including trends in the production and marketing of automobiles and other consumers' durable goods.

On several occasions since the end of the war it has appeared that inflationary pressures were waning and that there was a prospect of general price weakness and rising unemployment. Each of these occasions was ended, however, by a renewal of the inflationary spiral. While currently there are some renewed signs of weakness in the business situation, other factors continue to exert inflationary pressures.

It is difficult to measure the specific effect of Regulation W on the current trend in automobile sales since there are other factors also influencing these sales. A sales decline is normal at this time of the year on a purely seasonal basis, particularly in the used car field. Seasonal influences normally

will bring increases in sales and in used car prices in the Spring. It is clear from the evidence available to the Board that declines in sales volume of some of the articles covered by Regulation W began before the regulation was restored on September 20, 1948.

The recent softening of the automobile market has been primarily in the medium and higher priced lines, but there continues to be a considerable excess of demand over the supply of automobiles in the aggregate. This is indicated by the fact that some used cars are still priced above the corresponding models of new cars, and only in rare cases have the normal depreciation rates been re-established. Prices of new cars are still being increased in the case of recently introduced models. Many people are being priced out of the market while manufacturers' and dealers' margins remain high. Relaxation of Regulation W under these circumstances, with an attendant increase in demand, would tend to support current high prices for both new and used cars. In this connection we believe the following statement of the Senate Committee on Banking and Currency recommending enactment of this legislation is of interest:

"Only harm could result from inducing millions of American families to go heavily into debt on too easy terms for goods at the present high level of prices. The excessive credit built up in that way would not only increase present inflationary pressures; it would have to be liquidated later out of current income should a down swing occur, thus necessarily diverting that income from the channels of consumer expenditures in the ensuing period....

"...excesses in the field ... (of consumer credit) can be harmful not only to the people directly involved, but also to millions of others who are penalized by the inflationary effects of such excesses. The person of small income is the one hit hardest when inflation pushes prices beyond his reach and the one who suffers most when the resulting deflation throws him out of a job. The legislation should tend to result in directing competition along the line of decreasing prices rather than extending excessive credit terms. By making some contribution toward preventing further inflation at this time, and thus toward moderating any ensuing deflation, consumer instalment credit controls can especially serve the interests of the person of low income inaddition to serving the interests of all other consumers affected by our national economy."

On the basis of current study, therefore, the Board has not considered that the time has yet come to relax the provisions of Regulation W with respect to automobiles. The situation is somewhat different in other fields covered by the Regulation. There are reports of increasing supplies, price cuts, and other sales concessions in connection with some articles, such as appliances and radios. instalment sales of which are subject to the regulation. These developments are being observed closely, and the Board is prepared to act promptly in relaxing regulation W in either the automobile or appliance field when conditions call for such action.

Sincerely yours,

M. S. Eccles.