

November 12, 1946.

The Honorable John R. Steelman,
Director,
Office of War Mobilization
and Reconversion,
The White House,
Washington, D. C.

Dear John:

Attached is a one-page memorandum outlining how the Board would like to streamline Regulation W and the reasons therefor. As you know, this regulation rests on an Executive Order and was put into effect as the last point in the Government's economic stabilization program during the war. It was originally drawn in consultation with OPA.

In our last report to Congress the Board recommended that the appropriate committees give consideration to the question of whether some control should continue to be exerted in the field of consumer credit, which prospectively will be an increasingly important area in the country's whole credit picture. Some ten thousand banks have or expect to have consumer credit departments. We feel that particularly in view of the diminished influence which the Reserve System has over expansion and contraction of bank credit through the use of traditional central banking instruments, such as discount rates, it is important to decide whether or not some direct influence over this type of consumer credit is necessary in the general public interest. We think it is.

The subject, as you know, is highly controversial. Some pressure groups strenuously oppose any regulation. Others, however, want it. We think the issue should be decided by Congress, and we think the best way to bring the question before the Congress is by adopting this revised streamlined regulation focused primarily on about 15 of the major durables. They compose the bulk of instalment lending in which the fluctuation is greatest and hence the unstabilizing influence on the economy is the most pronounced.

This streamlining represents a narrowing of the regulation down to a minimum, assuming there is to be any regulation at all. The alternative would be to abolish it altogether. That, of course, could be done by the rescinding of the Executive Order by the President. If you feel that this is a possibility, particularly in view of the end of OPA, we would greatly appreciate it if you would give us an opportunity first to discuss the matter with you. Our

The Honorable John R. Steelman - (2)

November 12, 1946

feeling is that if all the regulation were abandoned now, it would prejudice any chance of getting the issue heard in Congress and, as I have indicated, we think it is important enough to be heard and decided there. The regulation could also be abolished, of course, if the Trading with the Enemy Act were repealed by Congress, although this does not seem likely at the moment, or if Congress by specific resolution were to invalidate the regulation.

While all opposition to it will not be removed by any means because of this streamlining, we think it will diminish opposition. We also think, however, that there is an obligation to those who favor retention of such regulation to keep it alive, if possible, at least until Congress can determine its fate.

An expression of your opinion would be appreciated as promptly as possible since we would like to proceed as rapidly as we can to announce the revision and make it effective after reasonable notice. The Board has already let it be known publicly that revision was being studied, and I stated in a public speech in Boston late in October that a revision along the lines indicated by the attached memorandum was contemplated.

Sincerely yours,

(Signed) M. S. Eccles.

M. S. Eccles,
Chairman.

Attachment

We propose to "streamline" Regulation W, both by cutting down its scope and by simplifying its requirements.

We have had this under consideration for more than 6 months, as something that would be in the public interest, and believe that the time has come to do it. We should like to issue the revised regulation at once, say November 15, and make it effective promptly, say December 1.

At the level of high policy, our program is predicated on two assumptions -- (1) that the President, pending opportunity for Congress to consider the matter of consumer credit legislation, will prefer not to revoke the Executive Order on which Regulation W is based; and (2) that the Office of War Mobilization and Reconversion will interpose no objection to our program, notwithstanding the fact that to accomplish the proposed "streamlining" will necessarily involve some narrowing of the scope of the regulation and, in addition, some incidental relaxation.

The proposed revision would retain and consolidate the most important elements of the present regulation, those which influence the course of instalment credit, including both instalment sales and instalment loans, by prescribing minimum down payments (such as one-third*) and maximum maturities (such as 15 months*). It would still apply to the instalment purchase of major durables, such as automobiles and household appliances. The sectors released from control, either entirely or almost entirely, would be charge accounts and single-payment loans, and the articles released would be semi-durables and a few durables, such as jewelry and musical instruments, which are of little consequence in the national economy. The categories of consumers' goods set forth in the regulation would be reduced from about 45 to about 15.

This will focus the regulation primarily upon the financing of the major durables which constitutes the great dollar bulk of consumer instalment credit in which the range of expansion and contraction is widest. Other components of total consumer credit, such as single-payment loans, charge accounts and service credit, show comparatively little fluctuation. Hence, if regulation is to continue with a view to exerting a stabilizing influence, it should logically be directed towards the area where fluctuations are the greatest.

In our judgment the regulation would be greatly improved administratively by the proposed changes. It would be a more workable and enforceable instrument, without a material weakening of its restraining influence at this time. When inflationary pressures have passed, it would need to be modified further, assuming that Congress decides to retain it as a permanent instrument of credit regulation.

We believe that if Regulation W is revised along the proposed lines it will command better public support, will be closer to the original regulation as it stood before war pressures required its expansion, and will in general be much more flexible.

*Subject to change from time to time, in either direction.