

August 25, 1943

To: Chairman Eccles

From: W. R. Stark

Attached is a copy of the statement which you may recall we told Judge Vinson I would prepare in connection with the Credit Control Order which is again under consideration.

This draft incorporates the two main points that were developed at our luncheon discussion early in August. It was prepared at that time but I am only now passing it along to you and Judge Vinson because meanwhile the matter seemed to be in abeyance.

You will be particularly interested in the marked paragraphs on pages 3 and 4. The first deals with the problem presented by the amount of time and negotiation necessary to the development of regulations and presents as a solution the idea that the Board would first strive to secure the cooperation of private agencies in establishing voluntary safeguards against credit abuses. The other paragraphs deal with the importance of past and continuing accumulations of deposits and currency which are the immediate source of the danger of inflation, and with the solution--the tax on capital gains.

Attachment



See pages 3 and 4

August 7, 1943

DRAFT OF PRESIDENT'S STATEMENT  
TO ACCOMPANY CREDIT CONTROL ORDER

Today, I have signed an Executive Order which marks another step in the program for stabilizing the war economy. This order provides for additional power to control an undue expansion of credit. I have designated the Board of Governors of the Federal Reserve System as the appropriate agency to assume this further responsibility in the credit field. The purpose of the order is to give assurance that the Board will not be hampered by lack of authority to take appropriate action to prevent excessive or unsound uses of credit. Such abuses of credit would interfere with the war effort and would endanger our program of economic stabilization.

Vigorous prosecution of total war inevitably creates many economic problems. We all know by now that many of these problems arise from the fact that civilian incomes have been greatly increased as a result of the Government's war expenditures, while the supply of things for which these incomes can be spent has shrunk.

In dealing with these problems the Government is following two main lines. By taxation, the sale of War Savings Bonds, price fixing, wage and hour policies, and credit controls it is making every effort to prevent a rapid rise in the cost of living. By rationing it is seeing to it that existing essentials are divided fairly among all the American people. Under wartime conditions a rise in the prices of food and clothing does not increase the supply available to the consumer. It merely takes more and more of his money and gives him less and less in return.

Uncontrolled credit expansion would contribute to this wasteful process. As the need has arisen we have taken steps to prevent this, and the present order is another of these steps.

In the announcement of the recent "hold the line" order it was pointed out that the line must be held at all points in order to be held at all. The use of credit is one of these points.

<sup>Two</sup>  
~~More than a year~~ and ~~a half~~ ago an Executive Order was issued directing the Federal Reserve System to bring about an orderly reduction in the rapidly growing volume of instalment and other forms of consumer credit. That the resulting measures have had a substantial degree of success is indicated by the fact that the outstanding amount of short-term consumer debt has declined from ten billion dollars to five billion dollars. It has been cut in two.

The present order amplifies the authority of the Federal Reserve System so that it will be in a position to take such other steps as may be needed to keep a tight rein on unsound and excessive uses of credit that would contribute to speculative increases in commodity and security prices and in land values. Such price advances would inevitably lead to collapse and to untold suffering, and would greatly increase the difficulties of post-war readjustment. This order is issued now at this time and in broad terms in order that we may be amply forearmed against the possibility of unsound credit developments. It will continue to be the responsibility of the Federal Reserve System, acting in conjunction with other agencies when it may be appropriate to do so, to formulate and bring into operation such measures as may be suitable to accomplish the purposes of the order.

✓ While the Board of Governors of the Federal Reserve System is given full authority for timely and appropriate regulatory action whenever and whenever it may become necessary, it is not expected that the Board will apply specific regulations to any considerable extent at this time. Instead it is understood that the Board will first strive to secure the cooperation of various private agencies in establishing voluntary safeguards against credit abuses. It is to be hoped that by this means the need for specific regulation may be greatly reduced--even avoided altogether at many points.

None of the actions authorized or contemplated under the order will prevent the banks and other credit institutions from providing the usual credit accommodations necessary to meet the legitimate needs of industry, commerce, and agriculture.

Inflation is most commonly identified with spiraling increases in the prices of consumer goods, but it is invariably accompanied by speculation in so-called capital goods in which people make long-term or even lifetime investments. When this happens the values of things like farms, urban real estate, and securities are temporarily driven to artificially high levels. When eventually these values collapse, this brings on foreclosures and the loss of savings, spelling disaster to millions of people. A previous order provided for control of credit used in the purchase of consumer goods. The present order is aimed largely at strengthening the control of the use of credit in financing real estate and security transactions.

✓ Credit regulation alone cannot prevent harmful speculation. Past and continuing accumulations of deposits and currency in the hands

of the public are, for the present, the more immediate source of possible danger. As a matter of fact, the volume of private borrowing has been declining. It is for this reason that I have recommended to the Congress that, in its present study of taxes, most careful consideration be given to a war profits tax on sales of capital assets. A tax designed to divert to the Treasury a substantial part of any profits on purchases of such assets made during the war period would not interfere with legitimate sales--that is, with the maintenance of adequate markets for these assets--but it would be an effective check on purchases made chiefly for the purpose of reaping speculative profits.

✓ Adequate taxation, including the suggested war profits tax on sales of capital assets, is the first essential in the Government's broad program of action to combat inflation. Without it credit control cannot be effective. The entire program, including the objectives of this order, is vital for the protection of all of us--every American worker, farmer, businessman, and housewife. The men and women of our armed forces all over the world must be assured that their families at home have that protection and that the home front to which they will return is not to be disrupted by a speculative boom and its collapse.