

Chairman Eccles

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 10, 1945.

To Members of the Board

Subject: _____

From Mr. Morrill

We received today from the Secretary of the Reconversion Working Committee a copy of a memorandum dated August 30, 1945, addressed to Mr. Robert Nathan, Chairman of the Reconversion Working Committee, from Mr. Walter S. Salant, of the Office of Economic Stabilization, in response to a request for a "report, first, on the present position of the Office of Economic Stabilization with regard to the desirability of instituting credit control to restrain inflation of capital values, and, second, on our views as to the continuation of consumer credit control under Regulation W of the Federal Reserve Board."

Mr. Salant's report is brief, being less than two pages, and I am attaching copies for each of the addressees of this memorandum.

Attachment.

Copies to Messrs. Thomas, Parry, and Vest.



OFFICE OF ECONOMIC
STABILIZATION

Washington, D. C.

August 30, 1945

To: Mr. Robert Nathan, Chairman,
Reconversion Working Committee

From: Walter S. Salant,
Office of Economic Stabilization

Subject: Views of Office of Economic Stabilization
Regarding Credit Control

At the meeting of the Steering Committee of the Reconversion Working Committee on August 20 you asked me to report, first, on the present position of the Office of Economic Stabilization with regard to the desirability of instituting credit control to restrain inflation of capital values, and, second, on our views as to the continuation of consumer credit control under Regulation W of the Federal Reserve Board.

Control of Credit Used in Securities
and Real Estate Transactions.

The Economic Stabilization Director, with the approval of the Economic Stabilization Advisory Board, recommended to the President in June that margin requirements for new purchases of securities be raised in order to put the securities markets more nearly or completely on a cash basis, and that an executive order be issued authorizing the Federal Reserve Board, under the policy direction of the Economic Stabilization Director, to institute control over the use of credit in farm and urban real estate transactions.

The Board of Governors of the Federal Reserve System, which has full authority over margin requirements, raised these requirements from 50 percent to 75 percent on July 5. The Office of Economic Stabilization is of the opinion that these increases should at least be maintained, but has given no further consideration to the possible desirability of increasing margin requirements further.

With regard to the institution of credit controls over real estate transactions, the Office of Economic Stabilization believes that the Japanese surrender may temporarily reduce speculative activity and possibly prices in the urban real estate field in the nation as a whole. For this reason it believes that the recommendations for the institution of a new control should not be pressed at this time. The Office believes, however, that except in swollen war production areas, the pressure upon housing prices will be renewed as a result of demobilization. Consequently it is withholding judgment as to the desirability of dropping the recommendation permanently.

The Office is also withholding judgment as to the desirability of instituting control over credit used for the purchase of farm real estate until the course of developments in this field becomes clearer.

Control of Consumer Credit

We have discussed the desirability of relaxing consumer credit controls with Federal Reserve officials and are in accord with their views. These are, briefly, (1) that control of credit extended in connection with the purchase of scarce durable consumers goods of sizeable unit cost should not be relaxed until supplies of these goods are sufficiently plentiful to permit maintenance of price ceilings, but that relaxation should not be delayed until excess demand at ceiling prices disappears entirely, and (2) that controls should be removed immediately over loans for home improvement, for soft goods such as clothing and linens, for light hard goods such as tires, lamps and dishes, and over non-purpose loans, i.e., loans not for the purpose of purchasing articles on a list of selected scarce consumer durable goods.