

THE WARTIME PRICES AND TRADE BOARD

Ottawa, Ontario
November 5, 1946

Mr. Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Mr. Eccles:

We have as a matter of practice been keeping each other mutually informed as to any proposed changes in our respective consumer credit regulations and you, accordingly, may be interested in our latest thinking on the subject insofar as our own regulations are concerned.

As a part of our general review in the field of decontrol, we have recently been giving consideration to the position of our consumer credit regulations in light of our present and future price control programme. In our case consumer credit regulations were put into effect solely for their price control implications, i.e., their effect in limiting consumer purchasing power and in reducing costs of operation for retailers. Because of this basis for their existence and also because in Canada it is generally agreed that the control of consumer credit falls under the terms of our constitution in the sphere of the Provincial Governments, the Board is forced to consider the continuance or the discontinuance of the regulations only on the scope of their significance for its price control programme.

From that point of view it now appears that there are good grounds for dropping the regulations at an early date. We would, I think, be inconsistent in maintaining consumer credit regulations despite having dropped a large number of other controls, in the fields of both price and supply, which were at least as significant in the overall programme to control inflation. At this stage of our efforts it is debatable whether the gains by way of limitation of purchasing power are sizeable enough to offset the administrative burden of the regulations.

Moreover, it is, I think, pretty clear that the practical effects of the regulations are substantially less than their theoretical value. Although we have attempted to control consumer loans on a basis comparable to the regulations governing the extension of credit by merchants, the necessary safeguards which have had to be provided for the individual operator have inevitably left routes by which a consumer who wished to do so could circumvent the regulations. Moreover, I am sure you will agree that the enforcement of consumer credit regulations is probably more difficult than that of most other price control regulations inasmuch as neither party to a violation normally has any immediate selfish incentive to report the matter to the Board. Most infractions, accordingly, have to be discovered by direct investigations. This factor, plus the pressure on a number of retailers to ignore charge account requirements in favour of maintaining

good customer relationships, leads me to believe that our existing regulations are probably being violated in a minor way on a pretty wide scale.

In view of the above considerations, we are now thinking seriously of revoking our consumer credit regulations in the near future. I would judge from newspaper reports of a statement attributed to you on October 25th that your own thinking is running along somewhat similar lines and that you propose shortly to drop at least the loan provisions and the charge account provisions of your own regulations. However, if you have any thoughts on the subject or any comments which you care to make on our proposed withdrawal from the field of consumer credit regulations, I would be very happy to hear from you.

Yours very truly,

(Signed) D. Gordon.

Chairman.

November 15, 1946

Mr. Donald Gordon,
The Wartime Prices and Trade Board,
Ottawa, Canada.

Dear Mr. Gordon:

Your letter of November 5, advising us of contemplated changes in your consumer credit regulations, was greatly appreciated, particularly because we were in the midst of preparing a revision of our Regulation W on this subject and decided in a Board meeting this noon to issue it immediately, as I advised you as promptly as possible by wire. I enclose a copy of the press release and of the revised text of our regulation.

I hope we will have the pleasure of seeing you here very soon. I should like very much to talk with you on credit matters and have the benefit of your views in regard to peacetime controls of consumer credit.

I would appreciate it if you would give my best regards to Governor Towers when you see him.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

ET:ac

*sent to Hon. Fisher
11/18/46.*