Calendar No. 830

80th Congress, 1st Session | SENATE | Report No. 775

PROVISION FOR REGULATION OF CONSUMER INSTALLMENT CREDIT FOR A TEMPORARY PERIOD

December 12 (legislative day, December 4), 1947.—Ordered to be printed

Mr. Flanders (for Mr. Tobey), from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. J. Res. 157]

The Committee on Banking and Currency, to whom was referred Senate Joint Resolution 157, a joint resolution to provide for the regulation of consumer installment credit for a temporary period, having considered the same, report thereon with amendments and recommend that the joint resolution as amended do pass.

The committee has given careful consideration to the subject of consumer credit controls not only during hearings at the present special session of Congress but also during the preceding regular session.

AMENDMENTS

In the light of such consideration the committee has amended Joint Resolution 157 in the following respects:

1. The termination date of the authority granted to the Board of Governors was changed from June 30, 1948, to March 15, 1949. This latter date is believed to be more in accord with the present economic outlook. The committee has taken notice of the fact that the Board of Governors has the power at any time within that period to discontinue part or all of the controls should the need for them cease to exist.

2. The scope of the joint resolution is confined to installment credit. It no longer encompasses the entire field of consumer credit. Installment credit has been demonstrated to be the volatile element in the aggregate of consumer credit. This amendment will allow reinstitution of the general type of consumer credit controls which were in effect on October 31, 1947. To conform to this amendment, the title of the joint resolution has been changed to include the word "installment" in connection with the reference to consumer credit.

3. Senate Joint Resolution 157 as originally introduced provided that no consumer credit controls should be exercised after the termination date, except in time of war which begins after the date of enactment of this resolution or any national emergency which is declared by the President after such date of enactment. The committee has amended the joint resolution to omit the reference to a national emergency, in the belief that there should be sufficient opportunity for Congress to restore such controls in the event of an emergency, other than war, if such controls were needed.

4. The committee has added to section 1, an enforcement provision which would grant to the Board of Governors with reference to consumer installment credit the same type of powers relating to investigation and injunction as are presently exercised by the Securities and Exchange Commission in connection with the Securities Exchange Act of 1934, as amended. The enforcement powers provided by this amendment are considerably less stringent than those which can be resorted to under Executive Order 8843 and the Trading With the Enemy Act, and are considered conducive to equitable and effective enforcement of the controls.

GENERAL STATEMENT

The committee believes consumer installment credit controls have a part to play in helping to stem the present inflationary pressures, and that the controls should be authorized by the Congress until March 15, 1949. This period is believed to be a minimum if the regulation is to play an effective part in helping to check inflation. The provision relating to enforcement procedures will facilitate equitable and effective administration of the controls. At any time within the specified period the Federal Reserve Board would be in position to modify whatever restrictions may be prescribed, or even to remove them altogether, in the event that such action should be warranted by a change in economic conditions.

Voluntary efforts to prevent loose installment practices from intensifying the present inflationary pressures have already shown themselves likely to be ineffective due to the forces of competition. In the few weeks since the end of regulation W many have tried "to hold the line," but installment credit terms have already become too easy for the present boom times.

The economic effect of adding borrowed dollars to current income, together with the unprecedented volume of savings in the hands of the public generally, in view of the present limits of productive capacity, can only be to intensify and prolong the period of inflated prices. Excessive installment credit would make no more goods available. It would only help to hold prices high in the market place.

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.

The proposed legislation is limited to consumer installment credit, and thus would authorize controls similar to those which were recently in effect under regulation W, with, of course, authority to make appropriate changes from time to time to accord with changing circumstances. In other words, the controls would apply to only the installment portion of consumer credit rather than the entire field of consumer credit which was covered by the Executive order when it was issued in 1941. The committee believes this scope for the regulation would be adequate for present purposes, and that the narrower scope conforms to the sound principle of holding even necessary regulations to the minimum consistent with the public interest.

It should be emphasized that the regulations contemplated under the legislation would not prohibit installment credit. They would merely prevent excesses in the field—excesses which 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 installment credit controls can especially serve the interests of the person of low income in addition to serving the interests of all other consumers affected by our national economy.

The committee recognizes that this legislation cannot do the full job of stopping inflation. It is only one weapon to be used in that fight. It is not a cure-all, and it will not mean an immediate end of all cases of inconvenience or hardship. The committee is convinced, however, that this legislation, by helping in the fight on inflation, will tend to reduce the instances of real hardship.

O