

WRIGHT PATMAN
FIRST DISTRICT
STATE OF TEXAS

WASHINGTON ADDRESS:
1203 HOUSE OFFICE BUILDING

HOME ADDRESS:
P. O. BOX 868, TEXARKANA, TEXAS

COMMITTEES:
BANKING AND CURRENCY
SMALL BUSINESS OF THE HOUSE

JOINT COMMITTEE ON THE ECONOMIC REPORT
JOINT COMMITTEE ON HOUSING

Congress of the United States
House of Representatives
Washington, D. C.

SECRETARY:
MRS. LUCILLE SPAIN

February 16, 1949

Hon. Thomas B. McCabe
Chairman of the Board of Governors
The Federal Reserve System
Washington, D. C.

My dear Mr. Chairman:

Nearly two months now have elapsed since I began calling attention of the Federal Reserve Board to the widespread damages being caused to our national economy by certain over-stringent consumer credit controls.

At that time I pointed out that an utterly needless depression could be created and was being threatened by the Federal Reserve Board's credit squeeze. More proof has kept pouring in since then that the Federal Reserve Board is depriving millions of American families of the opportunity to purchase needed automobiles, because your Regulation W requires excessively high monthly payments spread over only 15 to 18 months. I urged you in December -- and now I again plead -- that you exercise the power already vested in your board to extend the payment period to at least 24 months.

While the Federal Reserve Board has taken no action to date to alleviate hardships it is causing the people and to durable goods industries, unemployment is mounting at an alarming rate, production is being cut back and other soft spots have appeared in our economy.

Consequently I took some heart as I heard you testify on Regulation W February 14 before the Joint Congressional Committee on the Economic Report, when you promised:

"I can assure you that we will modify these restraints as the economic conditions warrant it and will not hesitate to relax them when they have served their purpose."

Then why don't you act immediately?

Already it is dangerously late.

Hon. Thomas B. McCabe
February 16, 1949
Page 2

Already you have thrown countless thousands of workers unnecessarily out of jobs.

Already you have carried too far your deliberate policy of discriminating against our families of moderate means whom you dictate cannot have reasonable installment credit to purchase the durable goods they need.

You are jeopardizing the very business lives of an untold number of small, independent businessmen throughout the country.

By singling out only certain industries, small businessmen and the mass market of ordinary folks for your unfair and discriminatory consumer credit measures, you already have carried the country too far toward deflation and depression.

If we have a depression it should not be called a "Truman depression" as the Republicans no doubt will attempt to do, instead it should rightfully be called a "Federal Reserve Board Depression."

It is not unusual for the Federal Reserve Board to cause depressions. It caused a devastating one in 1920. It contributed to the 1929-30 depression. It started a real depression in 1937, but fortunately our chief executive at that time caused changes to be made which put the Government back on a sound economic basis.

Of late there has been an alarming increase in areas of depression in sections of our country and our economy. Certainly we must give credence to such reports as the following which have appeared in the press in the last few days:

As a sharp index to what's happening to business, Dun and Bradstreet says bank clearings in 25 leading cities during the week ending February 9 were the lowest of any week since September 1.

Unemployment among railroad workers of the nation passed the 100,000 mark last week. This is around 10 per cent of the working force in the industry.

United Air Lines' President W. A. Patterson reports a recession is already here -- that he has found evidences of a business slump all over the country and that United has had to lay off 1300 employees since October.

Hon. Thomas B. McCabe
February 16, 1949
Page 3

The Federal Reserve Board reports that department store sales for the nation were down four per cent as compared to the same week last year, with New York and Atlanta down seven per cent and Dallas and San Francisco down 10 per cent.

Montgomery Ward's January sales were down 10 per cent over the same month last year, and Sears Roebuck's sales were down 11 per cent.

General Electric cut production 10 per cent at its Tiffin, Ohio plant which makes small motors.

International Harvester will curtail heavy truck production at Fort Wayne, Indiana, by 30 per cent and light truck output at Springfield, Ohio, by 10 per cent about March 1.

California factory employment dropped five per cent in January over December of last year for the sharpest decline since 1939.

Commercial and industrial failures rose 32.4 per cent to 192 in the week ended February 10, reaching the highest level since June of 1942, according to Dun and Bradstreet.

This represents just a very small sample of the worker layoffs and production curtailments which are taking place throughout our nation today.

All but the upper crust of purchasers are being forced out of the markets for new automobiles, refrigerators, furniture, appliances and other consumer goods that fall under your Regulation W consumer credit curb.

Not two out of 10 persons can afford to pay \$100 a month or more for new cars, since in general only persons earning \$5000 a year or more -- roughly the upper 14 per cent -- are classed as good credit risks for such installments. Yet simply by extending the credit period to 24 months, such monthly payments could be reduced to approximately \$75 a month.

Cars are an absolute necessity for most Americans today, the majority being used in their work or business, and so I am deeply concerned when the little fellow is hit as Regulation W is hitting him.

Hon. Thomas B. McCabe
February 16, 1949
Page 4

Auto installment credit today is virtually the same amount as it was in 1941 and you surely cannot consider that out of line in view of the fact that the sales value of autos now is much greater. Yet in the pre-war era, when cars cost less, purchasers were allowed to spread payments over longer periods.

Thousands of additional workers in durable goods industries are being laid off each week that you delay modifying Regulation W. This is endangering the nation's domestic, foreign and defense programs which hinge on a continued high level of production and employment in the durable goods industries.

Some time back I noted Detroit reports that up to then Regulation W was being blamed in connection with the auto industry having to lay off 10,000 workers and with almost all the auto parts manufacturers being forced to cut back production and employment. Over the weekend, Walter Reuther of the United Auto Workers Union announced that the auto industry in recent weeks laid off 5000 tool and die makers "who have little hope for re-employment in the immediate future."

These layoffs are setting off a chain reaction.

Small business, whose interests our House committee has been charged with looking after, is suffering severely from Regulation W.

Three out of every four auto dealers in the nation report they are being hurt by Regulation W, according to a poll being taken by the National Automobile Dealers Association among its 35,000 members. The association's membership, representing an important segment of American small business, went on record at their recent national convention in San Francisco as urging immediate extension of the installment period to 24 months.

You no doubt also have received a poll taken by the National Appliance and Radio Dealers Association showing the feeling of these small businessmen that you should revise the regulation to permit longer credit terms.

Hon. Thomas B. McCabe
February 16, 1949
Page 5

The promises you made before the Joint Congressional Committee to cause "the least possible interference with usual business operations" and to use your powers to meet deflationary developments lead me to observe this:

Recently the Department of Agriculture stepped in promptly, in the public interest, to stop the sudden, chaotic drop in farm commodity prices. This Government agency felt the need for action and did something about it immediately. Likewise the Federal Reserve Board is empowered and entrusted with the responsibility to act positively and swiftly against needless reduction of production and employment.

As a member of the Congressional Joint Economic Committee and House Banking and Currency Committee, and Chairman of the House Small Business Committee I regard it as my solemn duty to call to your attention what is happening to our country, something which I am afraid will not be recognized by your Board until it is too late. I am taking the liberty of sending a copy of this letter to your fellow members of the Board of Governors and I hope that each of you will see the human suffering that continued delay can cause. If you but listen to the reports from the grass roots of the country, I believe you would act at once to safeguard the people's interest.

Sincerely yours,

Wright Patman.

